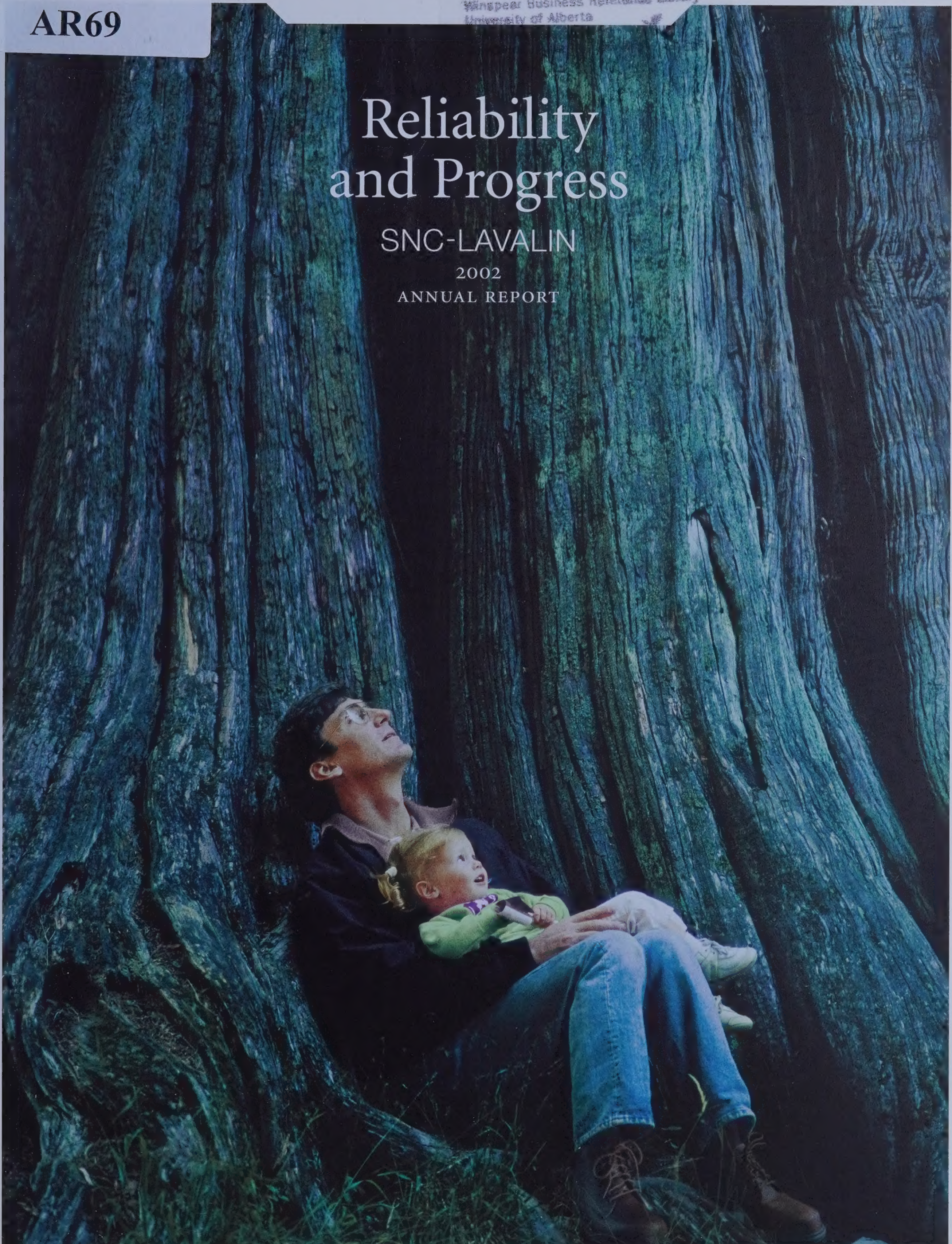
Reliability and Progress

SNC-LAVALIN

2002

ANNUAL REPORT



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SNC-Lavalin is one of the leading engineering and construction firms in the world. We design, build, own, manage and operate installations and infrastructure around the world.

SNC-Lavalin employs nearly 15,000 people, representing 80 nationalities and speaking 50 languages. At any given time, we are working in some 100 countries on activities ranging from engineering services to long-term concession agreements.

Reference in this Annual Report to "SNC-Lavalin" means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint ventures, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint ventures. Additional definitions are set out in note 1 to the consolidated financial statements.

Unity and Synergy

▪ Countries in which SNC-Lavalin has, or has had, projects underway

AGRIFOOD | BIOPHARMACEUTICALS | CHEMICALS AND PETROLEUM | DEFENCE | ENVIRONMENT | FACILITIES AND OPERATIONS MANAGEMENT | INDUSTRIAL AND MANUFACTURING

INFRASTRUCTURE | MINING AND METALLURGY | POWER | PULP AND PAPER | TELECOMMUNICATIONS

15,000 Employees | 80 Nationalities | 50 Languages

FINANCIAL HIGHLIGHTS

NET INCOMES – AS REPORTED
(IN MILLIONS OF $,
EXCLUDING HIGHWAY 407)

EARNINGS BEFORE INTEREST,
TAXES, DEPRECIATION
AND AMORTIZATION
(IN MILLIONS OF $, EXCLUDING
HIGHWAY 407)

RETURN ON WEIGHTED
AVERAGE SHAREHOLDERS'
EQUITY
(IN %, EXCLUDING HIGHWAY 407)

DIVIDENDS DECLARED
PER SHARE
(IN $)

FINANCIAL HIGHLIGHTS

(IN THOUSANDS OF DOLLARS, EXCEPT SHARE INFORMATION AND RATIOS)

INCOME STATEMENT HIGHLIGHTS

FOR YEARS ENDED DECEMBER 31	2002	2001
REVENUES	3,431,650	2,326,830
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)		
Excluding Highway 407	186,286	144,113
From Highway 407	196,831	45,410
	383,117	189,523
NET INCOME (LOSS)		
Excluding Highway 407 – as reported	89,511	59,194
From Highway 407	113,019	(32,748)
	202,530	26,446

BALANCE SHEET HIGHLIGHTS

AT DECEMBER 31	2002	2001
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	491,580	323,237
RECOURSE LONG-TERM DEBT	104,028	103,902
SHAREHOLDERS' EQUITY	597,114	442,964

SHARE INFORMATION

FOR YEARS ENDED DECEMBER 31	2002	2001
DILUTED EARNINGS PER SHARE		
Excluding Highway 407 – as reported	$ 1.75	$ 1.21
From Highway 407	2.20	(0.67)
	$ 3.95	$ 0.54
DILUTED CASH FLOW PER SHARE		
Excluding Highway 407	$ 2.73	$ 2.30
From Highway 407	(0.07)	0.03
	$ 2.66	$ 2.33
SHARES OUTSTANDING (IN THOUSANDS)		
Number of outstanding common shares – at December 31	50,157	49,813
Weighted average number of outstanding shares – basic	50,139	47,914
Weighted average number of outstanding shares – diluted	51,296	48,852
DIVIDENDS DECLARED PER SHARE	$ 0.37	$ 0.29

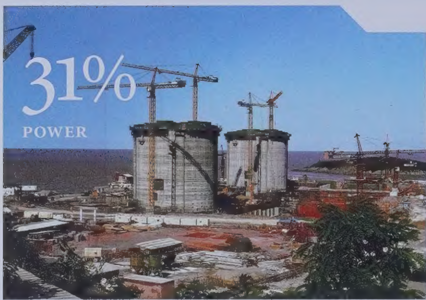
RATIOS

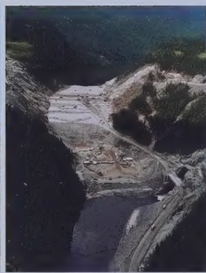
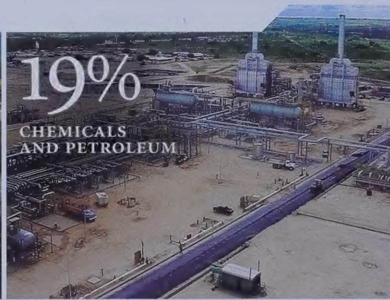
FOR YEARS ENDED DECEMBER 31	2002	2001
RETURN ON WEIGHTED AVERAGE SHAREHOLDERS' EQUITY (ROASE)		
Excluding Highway 407 – as reported	15.9%	14.8%
From Highway 407	20.1%	(8.2%)
	36.0%	6.6%
RECOURSE DEBT TO CAPITAL RATIO – at December 31	15:85	19:81

BACKLOG

AT DECEMBER 31	2002	2001
SERVICES	416,200	389,700
PACKAGES	1,715,400	885,000
CONCESSIONS	2,037,800	2,222,300
	4,169,400	3,497,000

AT A GLANCE



POWER / 31%

Major New Contracts / Developments → Contracts to complete construction of gas-fired thermal power plants, with a combined installed capacity of 8,700 MW, United States / Turnkey SCADA-EMS project for Sichuan Power, China / Eastmain-1 reservoir structures and spillway, Quebec, Canada / TransAlta's transmission specialists joined a new subsidiary, SNC-Lavalin ATP Inc., following AltaLink's acquisition of TransAlta's electrical transmission business, Alberta, Canada / Training in power grid management and project management, China **Major Ongoing Contracts →** Chamera II turnkey construction project, and rehabilitation of Panniar, Pallivasal and Sengulam hydro power plants, India / Cameron Highlands & Batang Padang hydroelectric schemes, Malaysia / Distribution Management System for electrical distribution networks in five areas of Thailand **Major Completed Contracts →** Sainte-Marguerite 3 hydroelectric development project, Quebec, Canada / Omushkego Ishkotayo power transmission line, Ontario, Canada / Qinshan nuclear power plant, China / Bruce used fuel dry storage project, Ontario, Canada

CHEMICALS AND PETROLEUM / 19%

Major New Contracts → PDO's gas plant, Oman / Additional packages for Petro-Canada's refining conversion project, Alberta, Canada **Major Ongoing Contracts →** Syncrude UE-1, Alberta, Canada / Managing contractor for Petro-Canada's refinery conversion project, Alberta, Canada / Petro-Canada's Sulphur In Gasoline projects, Alberta and Quebec, Canada / Construction of purified terephthalic acid facility for Interquisa, Quebec, Canada / Construction of industrial-scale polytrimethylene terephthalate (PTT) plant, Quebec, Canada / Sincor EPC upstream heavy oil facilities project, Venezuela / Engineering, procurement, construction, commissioning and start-up of sulphuric acid plant for Eti Holding, Turkey / ExxonMobil Sable Tier II project, offshore, East Coast, Canada **Major Completed Contract →** Sulphuric and phosphoric acid plant for Indian Ocean Fertilizers, South Africa

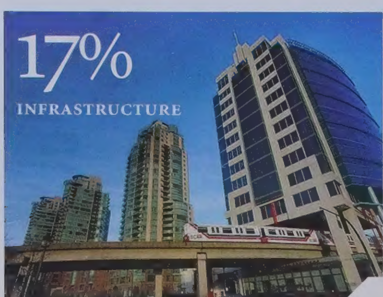
INFRASTRUCTURE / 17%

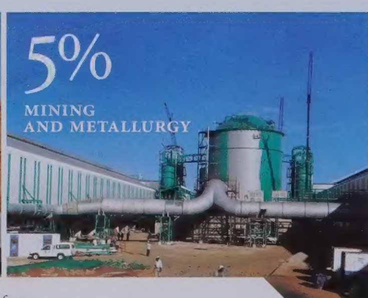
Major New Contracts → SAA urgent water diversion project, Algeria / Sarir PCCP plant and pipe production, Libya / Sea to Sky Highway, British Columbia, Canada / Nanterre City Hall, France **Major Ongoing Contracts →** Oued Chiffa water diversion project, Algeria / Canadian Embassy construction, Haiti / Montreal Metro extension, Quebec, Canada / Design and construction supervision of 2,220 km of national highways, India **Major Completed Contracts →** Tabreed, Phase I, United Arab Emirates / Bell Mobility wireless project, Alberta and British Columbia, Canada / Jacques-Cartier Bridge, Quebec, Canada / Vancouver SkyTrain –Millennium Line, British Columbia, Canada / Collingwood to Alliston 57 km water transmission line, Ontario, Canada

MINING AND METALLURGY / 5%

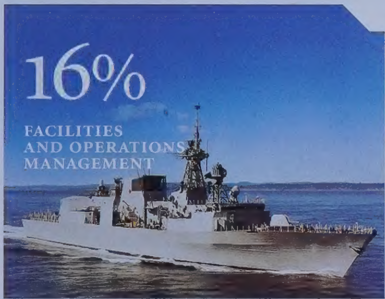
Major New Contracts → Alouette aluminum smelter, Quebec, Canada / Codelco Chuquicamata copper refinery, Chile / Peñoles greenfield copper facility, Mexico / Veladero gold project, Argentina **Major Ongoing Contracts →** Skorpion zinc refinery for Anglo Base Metals, Namibia / Rio Tuba nickel project for Sumitomo, Philippines / Expansion of Mozal and Hillside aluminum smelters for BHP Billiton, southern Africa / Diavik diamond mine for Rio Tinto, Northwest Territories, Canada / Rosia Montana gold mine project for Gabriel Resources, Romania **Major Completed Contract →** Alto Norte copper smelter for Noranda, Chile

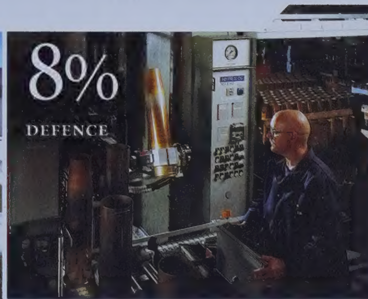
Note: Highway 407 represents 1% of SNC-Lavalin's consolidated revenues

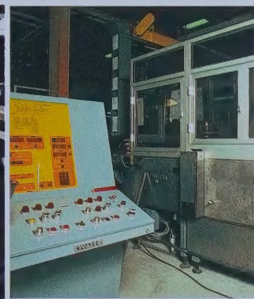


AT A GLANCE







FACILITIES AND OPERATIONS MANAGEMENT / 16%

Major New Contracts / Developments → Awarded a five-year Canadian Forces Contractor Augmentation Program (CANCAP) contract for support services to the Canadian military during foreign operations / Renewal of three major multi-year contracts Canadian Broadcasting Corporation facilities, Canada Post facilities and In-Service Support for the Canadian Navy's Minor Warships and Auxiliary Vessels / National Office Building of the Year Award for a Bell facility, managed by SNC-Lavalin Nexacor; and Certificate of Excellence (Ontario Chapter) for a Government of Ontario building managed by SNC-Lavalin ProFac / Updated ISO certification to 9001:2000 certification; SNC-Lavalin Defence Programs also obtained ISO 14001:1996 certification for integrating environment management into its ISO 9001 program

DEFENCE / 8%

Major New Developments → Research and development program to expand SIMUNITION® line of products / Supply of propellant to Daicel in Japan, and TRW and Autoliv in the United States to manufacture gas generators for the automobile airbag industry / Supply of 105 mm illuminating ammunition to the United States / Supply of 105 mm tank ammunition to Australia / Multi-year contract to supply 105 mm artillery ammunition to New Zealand / Fire protection systems for Dupont's semi-conductor facilities worldwide, Philips semi-conductor facilities in the Netherlands, and IBM's semi-conductor facility in Quebec, Canada **Ongoing Mandates →** Team leader for US 120 mm High-Explosive Insensitive Munitions Mortar Program, US Army / Research contract with Canadian Department of National Defence (DND) on future of indirect firing systems / Supply of SIMUNITION® line of products to US, European and Australian military and law enforcement agencies **Major Completed Contract →** Fire detection systems for Brussels Airport, Belgium

INVESTMENTS AND ADDITIONAL SECTORS / 3%

INVESTMENTS

Major New Developments → Received regulatory approval for AltaLink to acquire TransAlta's electrical transmission business, Alberta, Canada / Acquired 15.5% indirect interest in Malta International Airport p.l.c. under a 65-year concession agreement, Malta / Gazmont biogas power plant refinancing, Quebec, Canada / Start-up of Murraylink electricity transmission interconnector, Australia

AGRIFOOD

Major New Contracts / Developments → Acquisition of Boplan, France / Two-year agreement to provide engineering and project management services to Lantic Sugar plants across Canada **Major Ongoing Contracts →** Pet food plants in Russia, France and South Africa for Royal Canin **Major Completed Contracts →** Engineering, procurement and construction management for new foie gras production plant for Labeyrie, France / Turnkey construction of new ferment process cellar for Moët & Chandon, France

BIOPHARMACEUTICALS

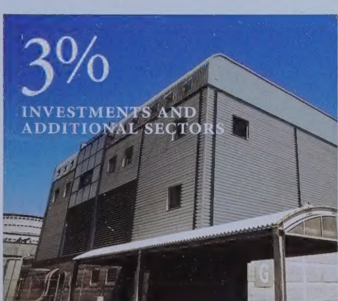
Major New Contracts / Developments → Acquisition of International Cleanroom Control Engineering (ICCE), Belgium / Construction of a new production unit for GlaxoSmithKline Biologicals, Belgium **Major Ongoing Contracts →** Large-scale expansion project for DSM Biologics, Quebec, Canada **Major Completed Contracts →** Extension to threonine production plant for Ajinomoto Eurolysine, France / Grassroots biopharmaceutical facility for Hemosol, Ontario, Canada

INDUSTRIAL AND MANUFACTURING

Major New Developments → Acquisition of certain assets of Eichleay Group, United States / Construction of an A380 assembly building for Airbus, France **Major Ongoing Contracts →** Ongoing services agreements for engineering and technical services with Procter & Gamble and Effem Foods, Ontario Canada / Construction of new aluminum smelter for GIBBS, Hungary **Major Completed Contract →** New oven and "cratec" line for Owens Corning, Belgium

TELECOMMUNICATIONS

Major Completed Contract → Deployment of high-quality CDMA 1X Bell Mobility Network, western Canada



MEMBERS OF THE OFFICE OF THE PRESIDENT

LEFT TO RIGHT: KRISH KRISHNAMOORTHY, MICHAEL NOVAK, KLAUS TRIENDL, PIERRE DUHAIME, GILLES LARAMÉE, ROBERT LEBOEUF, PIERRE ANCTIL, MARYLYNNE CAMPBELL, NORMAND MORIN, JACQUES LAMARRE, SAMI BÉBAWI

MESSAGE TO SHAREHOLDERS

How to present 2002? A year when our consolidated net income went up to $202.5 million, and when revenues reached $3.4 billion – increases of about 667% and 48%, respectively, over our 2001 results.

Clearly, this was an excellent year. Special circumstances boosted our results beyond their historical levels. One was the sale of 25.7% of our shares in 407 International Inc., and another was a number of contract awards to complete construction on thermal power plants. In addition to these circumstances, our overall performance was generally good throughout 2002.

HIGHWAY 407 – A VALUABLE ASSET

Highway 407 passed a test of sorts in 2002. The consortium's original investment in the 68 km Highway was $4 billion – $3.1 billion to purchase it from the Government of Ontario and $0.9 billion mostly to finance the construction of two extensions, which had yet to be built. At the time of acquisition, we were faced with many challenges: delayed environmental and construction permits, tight construction schedules, operating systems improvements and refinancing of the bridge credit facilities, to name a few. Also, revenue forecasts at that time were based on traffic flows on the completed 108 km Highway. We finished both extensions on time in 2001, and the completed Highway had its first full year of operations in 2002. We are pleased to say that revenues for 2002 were in line with the original base forecasts. Also in 2002, as mentioned above, we sold 25.7% of our shares in 407 International Inc. for a cash consideration of $177.6 million. This was a prudent move at the time. We have started to receive quarterly dividends from 407 International Inc., even though its impact on our profit and loss is still negative. We consider it to be one of our most valuable assets, and are convinced of its ongoing merit to our shareholders.

EXPANDING OUR EXPERTISE

We are world renowned in the fields of hydroelectric and nuclear power and, for a number of years now, we have been looking to expand our thermal power expertise.

In the spring of 2002, we were awarded a number of contracts to complete work on thermal power plants by clients whose projects were in difficulty due to the financial situation of their previous contractor, NEPCO. We then offered employment to NEPCO's former personnel, who have an excellent reputation in the thermal power industry in the United States. Our combined thermal power expertise is a great match. We have confidence in the US thermal power market's future potential, despite the recent slowdown, and are optimistic about opportunities worldwide.

Among our acquisitions in 2002 were the engineering firm Boplan in France, International Cleanroom Control Engineering (ICCE) in Belgium, and Pittsburgh-based assets of Eichleay in the northeastern United States. Each of these companies adds valuable expertise which complements our existing offering and raises our marketability.

RELIABLE PROGRESS

Excluding Highway 407, our net income from engineering and construction operations rose from a comparable $73.8 million in 2001 to $89.5 million in 2002. This amounts to a 21.3% increase on a comparable basis. Our operating income increased or remained steady in most sectors compared to 2001.

Our world-class expertise and our operating efficiencies have made us a global leader in project delivery in all our sectors of activity. We also maintain a strong balance sheet, with substantial working capital and a low debt level (excluding Highway 407's non-recourse debt). This financial strength positions us well to selectively pursue business acquisitions and concessions.

In January 2003, we purchased Texas-based GDS Engineers. This acquisition has made us one of the top maintenance and upgrade engineering firms in the US oil and gas sector, and greatly enhanced our process engineering capabilities. It has also given us a significant presence in the heart of the US oil and gas industry. Houston is an important client base in this sector, and we see it as a focal point for our global oil and gas operations. We are excited about our expansion into this vital market and expect it will bring us a good deal of new business.

EXPANDING OUR CONCESSION PORTFOLIO

Concessions are a major focus for us. Where we were once exclusively a fee-for-service business, we now offer much more – from financing to ownership, operation and maintenance. The combination of our technical skills and our ability to structure financing puts us in an ideal position to pursue concession opportunities. We expect the market for concessions to grow and are actively pursuing this type of venture.

In 2002, in addition to acquiring a percentage of the Malta International Airport concession, we and our partners concluded the AltaLink transaction, making it Canada's first independent electrical transmission enterprise. Also, construction was finished on the Murraylink interconnection line in Australia, and we have since requested it be converted from a non-regulated to a regulated line in order to achieve a more stable revenue flow.

CORPORATE RESPONSIBILITY

In today's business environment, the issue of responsible corporate governance has a higher profile than ever. We have always recognized its importance to our relations with shareholders, as well as with other internal and external stakeholders. We are pleased with the recognition and ratings we were given in two Canadian business surveys on corporate governance. *Canadian Business* magazine rated SNC-Lavalin 16th out of 300 companies on issues of independence, accountability and disclosure. Based on similar criteria, the Globe and Mail's *Report on Business* magazine rated SNC-Lavalin 42nd out of 270 Canadian companies.

Our health and safety and environmental programs have also played a key role in our corporate culture. We are proud of our health and safety record, and of the attention we have always given to environmental concerns. This year, we have added an Environmental Responsibility and Health and Safety section to our Annual Report. All the initiatives we have taken, and the progress we have made – or have yet to make – in these essential areas of interest will be reported in this section. One longstanding environmental project is the biogas-fuelled Gazmont power plant in Montreal. We are pleased that Gazmont was awarded the 2002 Prix ÉcoGESte by the Government of Quebec for greenhouse gas reduction and energy efficiency.

In other awards, the SkyTrain Millennium Line in Vancouver won an award of excellence for project management, and Highway 407 was selected by the financial review, *Project Finance International*, as one of the top 10 financial deals in the Americas in the last 10 years.

We were also pleased that, in November 2002, the National Post's *Business* magazine rated SNC-Lavalin fifth among Canada's 150 biggest companies for our three-year share return performance.

Undeniably, 2002 was a very successful year for us. The strategic decisions made over the course of the year have put us in an excellent position for 2003.

ACKNOWLEDGEMENTS

We welcomed two new members to the Office of the President in 2002, Ms. Marylynne Campbell and Mr. Pierre Duhaime. Marylynne retains her corporate Human Resources responsibilities, and is now also responsible for the Infrastructure, Environment and Industrial business units in the Toronto, Sarnia and Pittsburgh areas. Pierre is responsible for our Mining and Metallurgy activities worldwide. Both Marylynne and Pierre have many years of experience at SNC-Lavalin, and have made important contributions at each stage of their careers. We are very pleased to be able to acknowledge their abilities and achievements with these appointments.

We would also like to welcome Mr. David Goldman, who was named to our Board of Directors. David had a long career as a senior executive at Noranda, and his experience will be a great asset to SNC-Lavalin.

Our thanks to Mr. Roger Nichol and Mr. Robert Tribe, former members of the Office of the President, who retired in 2002. Both Roger and Robert have agreed to stay with the Company; Roger as a project director, and Robert as advisor to the Transport division. We appreciate their contributions and thank them for accepting their new roles.

We would like to thank Mr. Guy Saint-Pierre for his contributions to SNC-Lavalin as past Chairman of the Board. He has had a positive influence on SNC-Lavalin, and will remain an integral part of its history.

We thank our employees, who represent SNC-Lavalin across Canada and around the world. Our success in 2002 is a direct result of their exemplary performance.

We would also like to extend our gratitude to our clients. We appreciate your trust in us, and reaffirm our commitment to providing you with outstanding service and technical expertise – whatever the project and wherever it is located worldwide.

Finally, we would like to thank you, our shareholders, for your ongoing support and confidence.

"OUR CONSOLIDATED NET INCOME WENT UP TO

$202.5 MILLION,

AND REVENUES REACHED $3.4 BILLION
INCREASES OF ABOUT 667% AND 48%,
RESPECTIVELY, OVER OUR 2001 RESULTS.

CLEARLY, THIS WAS AN EXCELLENT YEAR.

SPECIAL CIRCUMSTANCES BOOSTED OUR RESULTS BEYOND THEIR HISTORICAL LEVELS. ONE WAS THE SALE OF 25.7% OF OUR SHARES IN 407 INTERNATIONAL INC., AND ANOTHER WAS A NUMBER OF CONTRACT AWARDS TO COMPLETE CONSTRUCTION ON THERMAL POWER PLANTS. IN ADDITION TO THESE CIRCUMSTANCES, OUR OVERALL PERFORMANCE WAS GENERALLY GOOD THROUGHOUT 2002."

JACQUES LAMARRE, ENG.
PRESIDENT AND CHIEF EXECUTIVE OFFICER

JOHN E. CLEGHORN, O.C., F.C.A.
CHAIRMAN OF THE BOARD

POWER

ALTALINK
CANADA

CHAMERA HYDROELECTRIC PROJECT (STAGE II)
INDIA

SNC-LAVALIN'S POWER GROUP OFFERS THE COMPLETE RANGE OF SERVICES REQUIRED TO DESIGN, BUILD, OPERATE, OWN, FINANCE AND MANAGE POWER FACILITIES, INCLUDING HYDROELECTRIC, THERMAL AND NUCLEAR POWER GENERATION PLANTS, AS WELL AS POWER TRANSMISSION AND DISTRIBUTION SYSTEMS. IT ALSO DESIGNS AND BUILDS ENERGY CONTROL SYSTEMS.

STRATEGIC PROGRESSION

Over the past few years, SNC-Lavalin has been looking for suitable opportunities to expand its thermal power expertise. In 2002, it was awarded contracts to complete a number of thermal power plants already under construction in the United States. The projects had run into difficulties due to the financial situation of the previous contractor, NEPCO. SNC-Lavalin then offered employment to NEPCO's former personnel, a well-respected team of thermal power specialists in the United States. This additional expertise has significantly added to SNC-Lavalin's thermal power capabilities. SNC-Lavalin's transmission expertise was similarly enhanced in 2002 when the AltaLink consortium officially acquired TransAlta's electrical transmission business in Alberta, making it Canada's first independent transmission enterprise. TransAlta's transmission specialists became part of a new subsidiary, SNC-Lavalin ATP Inc., which offers full engineering, procurement and construction services for high voltage facilities.

SNC-Lavalin has benefited from a growing demand for upgrade and modernization projects, as well as for waste management, reform and restructuring expertise. In Canada, Canatom-NPM Inc., a company majority owned by SNC-Lavalin, completed work on the Bruce used fuel dry storage project in Ontario with a flawless safety record of zero lost-time incidents. The Queen Elizabeth Repowering Project, which involved building and installing six 25 MW gas turbines in only 23 1/2 months, was also successfully completed in Saskatchewan. Overseas, work is proceeding well on the upgrading of seven hydro stations in Malaysia and three in India, while work began on the Southeastern European Electrical System Technical Support Project (SEETEC) in the Balkans.

THE VALUE OF QUALITY

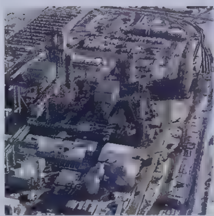
SNC-Lavalin's success in the Canadian Energy sector is based on over 90 years of quality work. It has earned a loyal client base across the country and continues to attract new clients. In 2002, it was awarded two new hydroelectric projects in Quebec, while work was completed on budget on the Sainte-Marguerite 3 Hydroelectric Development, and 25% under-budget on the Chute-à-Caron Project. Working with the Aboriginal and Northern Affairs division and SNC-Lavalin Capital, the Power group completed the Omushkego Ishkotayo transmission line construction project in northern Ontario. In the Arctic, it designed and constructed a water retention dike to permit de-watering of a 1 km^2, 300 m deep, open-pit mine for the Diavik diamond mine project. This was a technically challenging undertaking requiring extensive expertise in dam design. The project was a success despite permafrost conditions, which complicated several aspects of the construction process and affected the choice of materials used.

SNC-Lavalin has also built up a loyal international client base over the last 40 years. In India, work is progressing ahead of schedule and on budget on the Chamera II hydro power plant, in spite of flash floods, which twice destroyed temporary structures. The Kuttiyadi hydroelectric plant, which was completed in 2001, was commissioned in 2002. In China, SNC-Lavalin was awarded a turnkey SCADA/EMS project by Sichuan Power. This project includes the delivery of power market applications, which will allow the client to trade power in a deregulated environment. Also in China, the Qinshan nuclear power plant became fully operational in a record 51 1/2 months.

GILA BEND COMBINED CYCLE POWER PLANT
USA →

CHEMICALS & PETROLEUM

PURIFIED TEREPHTHALIC ACID PLANT CANADA



SULPHURIC ACID PLANT TURKEY

SNC-LAVALIN'S AREAS OF ACTIVITY INCLUDE OIL SANDS AND HEAVY OIL DEVELOPMENT, ONSHORE OIL AND GAS, OFFSHORE OIL AND GAS, PIPELINES, PETROLEUM REFINING, PETROCHEMICALS, BIOCHEMICALS AND FERTILIZER PROJECTS.

ADAPTING TO CHANGE

In 2001, recognizing the market potential for gas and in-situ bitumen/heavy oil projects, SNC-Lavalin acquired Titan Projects Ltd., a company accomplished in heavy oil recovery. In 2002, this expertise was instrumental in SNC-Lavalin and a partner being awarded a turnkey project for the design, construction and first year operational support of the Saih Nihayda Gas Plant in Oman. As part of its mandate, SNC-Lavalin will design, supply and install a 19 million Nm^3/d gas treatment plant and associated gas gathering facilities in central Oman.

Market opportunities are also opening up as refiners sanction Low Sulphur Gasoline and Diesel projects to comply with new environmental legislation. In this sector, SNC-Lavalin is working on a Low Sulphur Gasoline project at Petro-Canada's Montreal refinery, and, along with its partner, was awarded additional packages for the Edmonton Refinery Conversion Program. There, the current Low Sulphur Gasoline project and tank farm relocation mandate was extended to include Low Sulphur Diesel facilities.

GLOBAL SERVICES

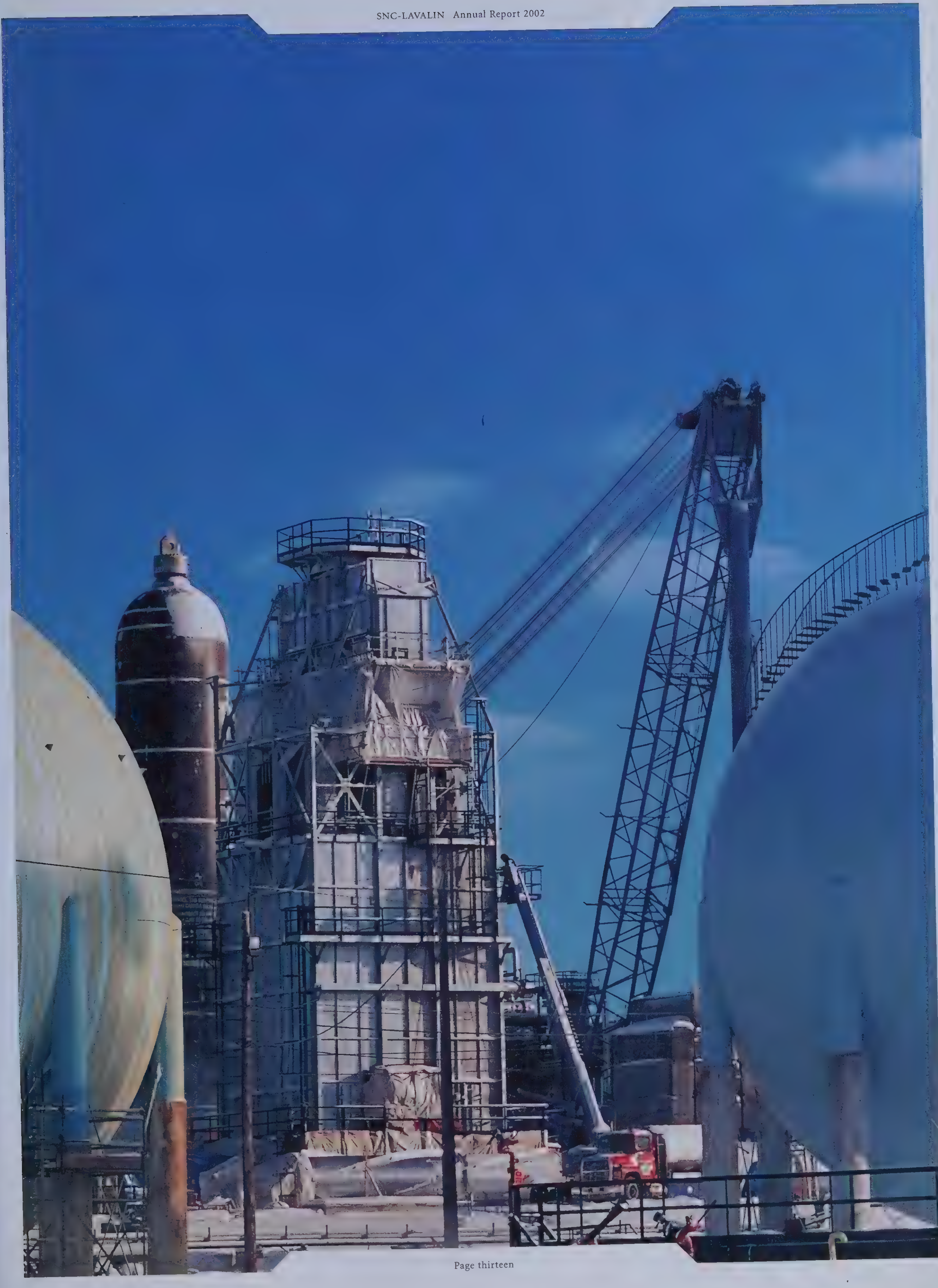
In every project it undertakes, SNC-Lavalin is able to draw from a variety of regional and multi-disciplinary expertise. As a result, it can offer full engineering, procurement and construction management services anywhere in the world. In 2002, SNC-Lavalin refined its regional services further by establishing domestic and international business units, each focused exclusively on the needs of its particular clients and markets.

Domestically, the focus in Alberta remains in the oil sands and heavy oil sector, with a good proportion of resources dedicated to upstream oil and gas projects and the huge Syncrude Upgrader Expansion (UE-1) project. In Atlantic Canada, the Offshore Oil and Gas Division continues to be awarded work on the ExxonMobil Sable Tier II project off Canada's east coast.

Internationally, SNC-Lavalin has concentrated primarily on the Persian Gulf, Venezuelan and US oil and gas markets. It has carried out many successful projects for Saudi Aramco over the years, and was awarded two new major projects in 2002. Similarly, SNC-Lavalin continues to perform well on Sincor's upstream heavy oil development project in Venezuela, where construction began on an additional 25 well clusters. In January 2003, SNC-Lavalin acquired Texas-based GDS Engineers, a consulting engineering firm of 500 maintenance and expansion specialists in the petrochemical, chemical and refining industries. This new operation strengthens SNC-Lavalin's presence in the heart of the US oil and gas market, and adds significantly to its overall expertise in this sector.

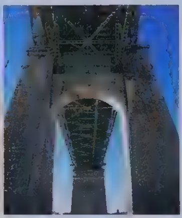
In the Chemicals sector, an important milestone was reached on the purified terephthalic acid (PTA) plant under construction in Montreal with the erection of a 60-metre, 250-tonne dehydration tower measuring six metres in diameter. Also in Montreal, construction is underway on the world's first industrial-scale polytrimethylene terephthalate (PTT) plant. In Turkey, construction on the sulphuric acid plant for Eti Holding continues, while SNC-Lavalin Europe completed its expansion of Indian Ocean Fertilizer's phosphoric acid production complex in South Africa. This joint venture project involved the construction of a new world-scale phosphoric acid plant, a new sulphuric acid plant and new storage and export facilities. In Australia, Burrup Fertilizers Pty Ltd, awarded SNC-Lavalin a contract to design and build a world-scale anhydrous ammonia production plant.

PETRO-CANADA REFINERY FEED CONVERSION PROJECT CANADA →



INFRASTRUCTURE


KUALA LUMPUR MONORAIL SYSTEM
MALAYSIA


JACQUES-CARTIER BRIDGE
DECK REPLACEMENT
CANADA

SNC-LAVALIN DESIGNS AND BUILDS INFRASTRUCTURE PROJECTS OF ALL SIZES WORLDWIDE, INCLUDING WATER TREATMENT FACILITIES, HOSPITALS, AIRPORTS, LIGHT AND HEAVY RAIL TRANSIT SYSTEMS, ROADS, BRIDGES, AND FLOOD CONTROL SYSTEMS.

RELIABLE RESOURCES

SNC-Lavalin has established a reputation for expertise in the water sector, successfully carrying out projects in Canada and worldwide. In 2002, it was awarded an urgent water diversion project in Algeria, involving the construction of a 75 km steel supply main, a number of pumping stations, including one floating station, and a water treatment facility, all over a period of only six months. This challenge was met with no lost-time accidents, and the Algerian Government has since awarded SNC-Lavalin another emergency water project near the city of Skikda. In Libya, SNC-Lavalin was awarded two more water contracts by the Great Man-Made River Authority (GMRA), one for the operation, maintenance, care and custody of the Sarir water pipe plant, and the other to drill 15 wells in the Libyan desert. In Canada, SNC-Lavalin was awarded a contract to provide project management services for the Capilano and Seymour Filtration Plant, one of the largest greenfield filter plants in the world.

SNC-Lavalin has also been very active on water projects in the Environment sector. It is developing source protection strategies and land use planning tools for a ground water protection study in Hamilton, Canada, and has been awarded new mitigation and agricultural phases in the Dnieper River Basin clean-up project in Eastern Europe. SNC-Lavalin is also carrying out cleaner production projects encompassing all areas of industrial pollution in China, Vietnam and India, and a number of greenhouse gas studies across several industry sectors in Canada.

In the field of medical infrastructure, SNC-Lavalin completed engineering, procurement and construction management services for the Clinique des Franciscaines, near Versailles, France. The building includes 138 beds and nine operating rooms. In Montreal, SNC-Lavalin also completed the master plan for the Centre hospitalier de l'Université de Montréal, a new medical centre which will replace three major hospitals.

BRINGING PEOPLE TOGETHER

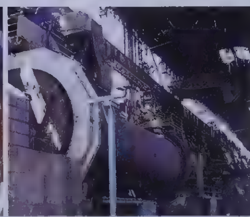
SNC-Lavalin's Mass Transit group and its partners gained recognition when Canadian Consulting Engineers presented them with an Award of Excellence for their expansion work on the Vancouver SkyTrain Millennium Line, which went into revenue service in September 2002. Also in British Columbia, SNC-Lavalin was awarded a project management contract for the widening of the Sea to Sky Highway between Vancouver and Whistler. In Montreal, SNC-Lavalin's joint venture company, SLIVIA, was awarded long-term maintenance management contracts for public bus fleets in the cities of Longueuil, Montreal and Quebec, making it the leading public transport manager in Canada. In addition, the extension of the Montreal Metro system to Laval proceeded to construction, while construction was completed on the Jacques-Cartier Bridge deck replacement project. In Malaysia, work continues on schedule on the Kuala Lumpur Monorail System.

Also overseas, construction work on the new Canadian Embassy in Haiti is progressing well with an admirable health and safety record, and SNC-Lavalin France finished work on the technically challenging Centre Aquatique du Mont-Olympe recreational centre in France.

SAA URGENT WATER DIVERSION PROJECT
ALGERIA →

MINING & METALLURGY

SKORPION ZINC MINE AND REFINERY PROJECT NAMIBIA



ALTO NORTE COPPER SMELTER UPGRADE CHILE

SNC-LAVALIN'S TECHNICAL EXPERTISE INCLUDES MINING, MINERAL PROCESSING, SMELTING AND REFINING, PYROMETALLURGY AND HYDROMETALLURGY. IT IS A WORLD LEADER IN THE FIELDS OF ALUMINUM, ZINC AND MAGNESIUM, AND IS VERY ACTIVE ON A NUMBER OF GOLD, NICKEL AND COPPER PROJECTS. SNC-LAVALIN HAS RECEIVED INTERNATIONAL RECOGNITION FOR ITS SUPERIOR PROJECT MANAGEMENT SKILLS.

SECURE PRESENCE

SNC-Lavalin is one of the world's premier engineering and construction firms in the field of aluminum smelters. It was active on a number of large projects in 2002. In Canada, a joint venture led by SNC-Lavalin has been awarded a contract by Aluminerie Alouette Inc. to more than double its smelter's capacity by the end of 2005, making it the largest aluminum smelter in Quebec. In the Netherlands, work is proceeding well on Pechiney's aluminum smelter where SNC-Lavalin is carrying out modernization and replacement work while the plant continues to operate. To ensure operations are not interrupted, a turn-around time of four hours for each replacement procedure is met by four work crews, twice daily – a total of eight times a day. Expansion work on the Mozal and Hillside aluminum smelters in southern Africa is also proceeding very well, on budget and ahead of schedule.

INTEGRATED SOLUTIONS

One of SNC-Lavalin's advantages is the fact that each of its divisions has ready access to the sum of all the other divisions' expertise. This is critical in projects located in remote areas with delicate ecosystems. Each project presents its own unique environmental, infrastructural, financial, cultural and logistical challenges requiring the expertise of various divisions. In the Namibian desert, one of the driest in the world, the Skorpion zinc mine and refinery is maintaining its exemplary safety record with 4.2 million on-site hours without a single lost-time incident. Similarly, the Diavik diamond mine project in the Canadian Arctic was completed in 2002, four months ahead of schedule, having attained a safety milestone of one million on-site hours without lost-time incident. Also in the Canadian Arctic, SNC-Lavalin began work on the decommissioning and reclamation of the Polaris zinc mine, the world's most northerly metal mine, situated at a latitude of about 75°N. In the Philippines, SNC-Lavalin's Australian office is working on the Rio Tuba nickel project on the remote island of Palawan.

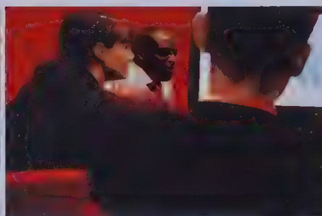
SNC-Lavalin's experience in managing large investment projects and its quality work have earned it a loyal and growing client base in a number of sectors. In 2002, this was particularly notable in the copper sector. Its Centre of Excellence for copper, based in Santiago, Chile, was awarded two contracts in that country by long-time client Codelco – a feasibility study for a new copper smelter and refinery at Mejillones, and a joint contract to modernize and automate its copper electro-refinery in Chuquicamata, the largest refinery of its kind in the world. Also in Chile, upgrading and modernization work was successfully completed on Noranda's Alto Norte copper smelter. In addition, the Santiago office made inroads in Mexico in 2002 when it was awarded a contract to provide engineering and procurement coordination services for Peñoles' greenfield copper plant at Milpillas.

Another long-time client, Barrick Gold Corporation, awarded SNC-Lavalin a number of start-up studies, while SNC-Lavalin's Toronto office obtained its first contract from Newmont for engineering and procurement services on concrete-lined, 425 metre-deep production and ventilation shafts for its Leeville gold mine in Nevada.

DIAVIK DIAMOND MINE CANADA →

FACILITIES & OPERATIONS MANAGEMENT

ONTARIO PROVINCIAL
POLICE BUILDING
CANADA



CANADIAN BROADCASTING
CORPORATION
CANADA

SNC-LAVALIN'S FACILITIES AND OPERATIONS GROUP IS MADE UP OF SNC-LAVALIN PROFAC AND ITS SUBSIDIARIES, SNC-LAVALIN NEXACOR AND SNC-LAVALIN DEFENCE PROGRAMS. SNC-LAVALIN PROFAC, IS CANADA'S LEADING PROVIDER OF INTEGRATED MANAGEMENT SERVICES FOR MISSION CRITICAL AND OTHER FACILITIES, INFRASTRUCTURE AND REAL ESTATE.

RELIABLE MANAGEMENT SOLUTIONS

SNC-Lavalin ProFac has the experience and the economies of scale to optimize efficiency and costs across a wide range of sectors. Its success in the field of facilities and operations management is reflected in the frequent renewal of term contracts and the repeat business it receives from its clients.

In 2002, SNC-Lavalin ProFac's long-standing contracts with the Canadian Broadcasting Corporation (CBC) and Canada Post were both renewed for five-year terms, as was its contract with Air Canada. Also in 2002, its contract with Bell was expanded to include two subsidiaries, ExpressVu and Emergis. In another development, the Building Owners Management Association (BOMA) awarded the 2002 National Building of the Year Award (TOBY) in the renovated building category to Bell's building at 87 Ontario Street, in Montreal. The building is managed by SNC-Lavalin Nexacor, and the award recognizes the fact that tenants were able to continue working in the building while extensive renovations were being carried out. This was a unique challenge as the building houses administrative offices as well as Bell's technical operations.

In the area of Defence, SNC-Lavalin Defence Programs' contract for in-service support for the Canadian Navy's Minor Warships was rebid in 2002, resulting in a new four-year contract. SNC-Lavalin Defence Programs and its partner were subsequently awarded a new five-year contract to provide support services to the Canadian Forces during deployment on international operations in a stable environment. The partners formed a jointly-owned company whose mandate will include administration, food services, material management, communications, equipment maintenance, health services, roads and grounds services, transportation, accommodations, construction engineering, fire services, facilities and operations management and the supply and distribution of power and water. Along with its long-standing In-Service Support mandate, the experience SNC-Lavalin Defence Programs continues to accumulate in the specialized military market positions it well for future contracts.

Both SNC-Lavalin ProFac and SNC-Lavalin Defence Programs updated their ISO certification in 2002 to ISO 9001:2000. Defence Programs also obtained ISO 14001:1996 certification, confirming its commitment to internationally accepted quality and environmental standards.

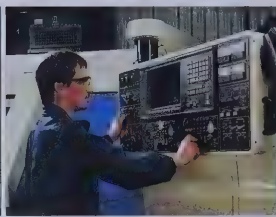
COMMITMENT TO CUSTOMER SERVICE

SNC-Lavalin's success as a facilities and operations manager is due, in large part, to its ability to anticipate and adapt to changing customer requirements. SNC-Lavalin ProFac maintains its competitive edge by continually improving and refining its services and systems. In fact, a number of its contract renewals were a direct result of its proactive approach to improving customer service. In 2002, it set up a Service Reliability Council with a particular focus on mission critical facilities. Council members meet regularly to share information about operational risks, problems faced and solutions found. As a result, problems can be solved quickly and, in many cases, avoided altogether.

BELL'S BUILDING
87 ONTARIO STREET, MONTREAL
CANADA →

DEFENCE

HEADING PRESS, SNC TEC
CANADA



SAINT-AUGUSTIN PLANT
CANADA

SNC-LAVALIN'S DEFENCE GROUP PRODUCES AN EXTENSIVE LINE OF DEFENCE PRODUCTS. THESE INCLUDE SIMUNITION® TRAINING AMMUNITION AND ITS ASSOCIATED TRAINING SYSTEMS, AS WELL AS CONVENTIONAL AMMUNITION. IT ALSO PRODUCES EXTRUDED PROPELLANTS FOR COMMERCIAL AND MILITARY PRODUCTS, AND SECURIPLEX FIRE PROTECTION SYSTEMS. ALL ITS FACILITIES ARE ISO 9001-CERTIFIED.

STRONG ALLIANCES

SNC TEC, SNC-Lavalin's Defence manufacturing subsidiary, has made remarkable inroads into the global market in the last five years. In addition to its long-time, and once, only client, the Canadian Department of National Defence, SNC TEC has established secure relationships with some of the world's most significant Defence customers in the United States, Europe and the Pacific Rim. Its international clients now account for more than half its revenues, and most are long-term or repeat customers.

There has been an increasing market for SNC TEC's line of small calibre training systems, sold under the internationally recognized brand name, SIMUNITION®. SIMUNITION® products are sold through a worldwide network of distributors and 2002 was a record year with sales to the US Navy; US federal agencies, such as the Federal Bureau of Investigation (FBI), the Secret Service, and the Federal Law Enforcement Training Center; and the Australian and Dutch armed forces. SNC TEC is currently conducting a research and development program to expand its line of SIMUNITION® products.

SPECIALTY SERVICES

SNC TEC, its subsidiary, EXPRO Technologies and Securiplex, are unique suppliers in a number of areas.

SNC TEC produces a broad range of products in an increasingly segmented market, thus giving its clients the rare advantage of one-stop-shopping. At the same time, it possesses very specialized technical expertise and the capacity to handle lower-quantity production runs. It is also one of only a few brass cartridge case manufacturers located within NATO countries, ensuring a steady flow of business for its products.

Similarly, EXPRO Technologies is one of only two North American producers of extruded propellants used in commercial and military products, and currently the only qualified producer to supply propellant for modular artillery charge (MAC) systems in the United States. Daicel, TRW and Autoliv each awarded EXPRO Technologies contracts to supply extruded propellant to produce gas generators for their automotive customers.

Securiplex, SNC-Lavalin's fire protection specialist, is the sole company qualified to use water mist fire protection technology in the semiconductor industry. Securiplex completed installation of a Fine Water Spray fire protection system at one of Fairchild Semiconductor's microchip manufacturing plants in the United States. It also won similar contracts for all Dupont's semiconductor facilities worldwide, and for IBM's plant in Bromont, Quebec.

SNC TEC HEADQUARTERS
CANADA →

ADDITIONAL SECTORS

(1)

AGRIFOOD

SNC-Lavalin has over 50 years of international experience in the agrifood industry. Working from bases in Europe and Canada, the Agrifood division offers comprehensive management expertise in agrifood process engineering ranging from food processing (for animals and people) to packaging, handling, distribution and storage facilities.

(2)

BIOPHARMACEUTICALS

SNC-Lavalin has over 40 years of experience worldwide in the biotechnology and pharmaceutical sectors. It excels in engineering, construction and validation projects, and possesses an in-depth knowledge of biotechnology and pharmaceutical process engineering, as well as regulatory compliance.

(3)

INDUSTRIAL & MANUFACTURING

SNC-Lavalin offers a full range of services in the light industrial and secondary processing sectors, from process development and design to plant commissioning and start-up. It also offers complete services in the instrumentation and automation of industrial processes across all its sectors of activity.

(4)

TELECOMMUNICATIONS

In addition to its in-house specialists, SNC-Lavalin is represented in this sector by its North American-based subsidiary, Expertech, and its UK-based subsidiary, Spectra Telecom. Its expertise includes the deployment of wireless and wireline systems and consultancy services to the wireless sector.

(1) The most significant development in the agrifood sector in 2002 was the acquisition of Boplan by SNC-Lavalin's French subsidiary, Pingat Ingénierie, forming SNC-Lavalin France. Their combined expertise makes SNC-Lavalin France a European leader in the agrifood sector. SNC-Lavalin France is currently providing complete engineering, procurement and construction management services for Alifel's poultry feeding mill in France.

SNC-Lavalin can handle every aspect of a project, large or small, including turnkey contracts. SNC-Lavalin France completed the turnkey construction of a new ferment process cellar for Moët & Chandon, and is providing full engineering, procurement and construction management services for a new foie gras plant for Labeyrie. In Canada, SNC-Lavalin Audet provided global project management services for Maxi Poultry's fast-food chicken factory in Quebec, including environmental assessments. It was also awarded multi-year agreements by Danone and Lantic Sugar following its completion of upgrade and modernization projects for those companies within very tight schedules. Also in Canada, SNC-Lavalin Roberts Sloane is designing a fish hatchery near Thunder Bay for the Ontario Ministry of Natural Resources. Once completed, the Dorion Fish Culture Facility will re-stock fish populations in the Great Lakes.

(2) SNC-Lavalin added to its expertise in the biopharmaceutical sector in 2002 with the acquisition of Belgium-based International Cleanroom Control Engineering (ICCE) by SNC-Lavalin Europe. The expanded office is the largest full-service pharmaceutical engineering firm in Belgium. It has since been awarded two significant contracts requiring this additional expertise: one for the engineering, validation and site supervision of a new live vaccine production building for GlaxoSmithKline; and the other for engineering, process, procurement, construction management and validation services for a sterile unit for Société Federa. In the field of biochemicals, SNC-Lavalin Europe completed its design and construction management work on Europe's largest threonine production plant.

In Canada, SNC-Lavalin completed the process equipment installation at the Hemosol facility in Ontario with an exemplary safety record, and has progressed to the validation stage. In Quebec, it is providing design, process, process automation, mechanical and electrical facilities, validation, procurement and construction supervision on a large-scale expansion project for DSM Biologics.

(3) One of SNC-Lavalin's key strategic objectives is to continually enhance its service offerings. In September 2002, SNC-Lavalin acquired certain Pittsburgh-based assets from the Eichleay Group, a well-established full-service engineering and construction firm with expertise in ferrous and non-ferrous metals, chemicals, polymers, resins, petrochemicals, glass, manufacturing and other light industrial sectors.

SNC-Lavalin is also building on its existing services in the field of instrumentation and control automation. Its offices in Canada and worldwide have been providing these services for many years across all its sectors of activity. As the importance of automation grows in process, plant and infrastructure management, SNC-Lavalin is increasing its capacity in this area to better meet the needs of its clients.

(4) SNC-Lavalin's North American and UK operations are working on a number of ongoing telecommunications projects. In 2002, SNC-Lavalin and a partner completed the deployment of the high-quality CDMA 1X Bell Mobility Network in western Canada.

↓ HEMOLINK™ COMMERCIAL PRODUCTION FACILITY CANADA

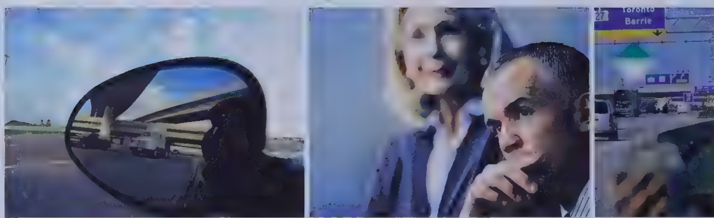
↓ FIBRE OPTIC CABLE INSTALLATION CANADA

↓ NEW OVEN AND "CRATEC" LINE FOR OWENS CORNING BELGIUM

↑ TECHNICAL PLAN POULTRY FEEDING MILL FRANCE

HIGHWAY 407

HIGHWAY 407
CANADA



HIGHWAY 407 EXPRESS TOLL ROUTE (407 ETR), LOCATED IN THE DENSELY POPULATED AREA NEAR TORONTO, CANADA, IS THE WORLD'S FIRST ALL-ELECTRONIC, OPEN-ACCESS TOLL ROAD. IN 1999, SNC-LAVALIN AND ITS PARTNERS ACQUIRED THE RIGHT TO OPERATE 407 ETR UNDER A 99-YEAR LEASE FROM THE GOVERNMENT OF ONTARIO.

INVESTING IN GROWTH

Market confidence in the value of 407 ETR continued to grow in 2002, with revenues from the expanded Highway in line with base forecasts. Traffic levels also rose and cash flow from operations remained positive. In addition, the successful refinancing of the project was recognized when the UK-based financial review, *Project Finance International*, selected 407 ETR as one of the top 10 financial deals in the Americas in the last 10 years. SNC-Lavalin Capital Inc. was involved in the refinancing, which was completed in less than one year.

A significant development for SNC-Lavalin regarding this concession was its decision to sell 25.7% of its shares in 407 International Inc. to a third party for a cash consideration of $177.6 million. This amounted to approximately four times the original investment per share price at that time. SNC-Lavalin thereby recuperated its initial investment of $175 million, while demonstrating 407 ETR's growing value to existing and potential shareholders. SNC-Lavalin remains a shareholder, with a 16.77% participation.

In October 2002, 407 ETR began work on a $6 million lane widening project between Highway 400 and Highway 427. The extra lane in each direction is expected to increase capacity in the area by approximately 4,500 vehicles per lane per hour. This, combined with additional traffic from two extensions completed in 2001 and significant real estate development in the area, will increase the average number of workday trips and generate additional cash flow. Moreover, approximately 74% of cars using the Highway have installed transponders, indicating a strong base of frequent repeat customers.

CLIENT-DRIVEN SERVICES

In December 2002, 407 ETR announced a rate increase of less than one-and-a-half cents per peak-hour kilometre, effective February 1, 2003. The new rate will help fund increased maintenance costs, new lane expansions and other improvements required as more and more people choose 407 ETR as their preferred route. To help meet its clients' needs, 407 ETR has constructed a 1,254 m² call centre with over 2,000 phone lines, added more than 200 new customer service representatives, and launched a new computer software system to facilitate administrative processes. This concession continues to offer excellent value for its clients, particularly compared to similar toll roads in North America, which can cost as much as three times more per kilometre.

HIGHWAY 407
CANADA →

INVESTMENTS

MALTA INTERNATIONAL AIRPORT
MALTA

ALTALINK
CANADA

SNC-LAVALIN IS ACTIVELY PURSUING CONCESSION INVESTMENTS AROUND THE WORLD. ITS CURRENT PORTFOLIO CONSISTS PRIMARILY OF INVESTMENTS IN THE POWER AND INFRASTRUCTURE SECTORS, INCLUDING ITS ELECTRONIC TOLL ROAD, HIGHWAY 407.

SNC-Lavalin has been investing in Power sector concessions since the early 1980s – long before the term 'concession' came into common usage. It has successfully built, refurbished, operated and sold a number of small hydroelectric power plants in the United States and Canada, and still holds a 21% ownership in the West End Dam project near Carthage, New York. Commissioned in 1985, the facility has since generated an estimated net average of 22,264,070 kilowatt-hours of electricity per year, which SNC-Lavalin and its partners sell to the Niagara Mohawk Power Corporation.

In Montreal, SNC-Lavalin and a partner have owned and operated the 23.5 MW Gazmont Power Plant since 1996. This facility is of particular note because it is fuelled by biogas produced at a sanitary landfill site. Gazmont reduces greenhouse gas emissions by roughly 1.1 million tonnes of carbon dioxide per year, while producing enough electricity to meet the annual demands of approximately 16,800 homes. Moreover, it provides a steady source of revenue through the sale of this electricity to Hydro Québec under a 25-year power purchase agreement. In 2002, the Government of Quebec presented Gazmont with a Prix ÉcoGESte for greenhouse gas reduction and energy efficiency.

In Pakistan's Punjab province, SNC-Lavalin indirectly owns 33.7% of Southern Electric Power Company Limited (SEPCOL) which, in turn, owns the 117 MW Raiwind Thermal Power Plant, including a 30-year power purchase agreement. The power plant was commissioned in 1999 and SEPCOL successfully completed financial restructuring for the facility in 2002.

In the last two years, SNC-Lavalin has invested in two power transmission concessions, Murraylink, in Australia, and AltaLink in Canada. SNC-Lavalin and Hydro Québec each undertook a 50% participation in Murraylink in March 2001. Construction of the 180 km, 200 MW interconnection line between the states of Victoria and South Australia was completed in 2002, and it is now operational. SNC-Lavalin and its partner have since requested that Murraylink be converted from a non-regulated to a regulated line in order to achieve a more stable revenue flow. In April 2002, the SNC-Lavalin-led AltaLink consortium officially acquired TransAlta's electrical transmission business in Alberta. This represents almost 60% of Alberta's electrical transmission requirements, including some 12,000 km of transmission lines and over 250 substations. Upon closure of the transaction, AltaLink became Canada's first independent transmission enterprise. Both investments are located in well-developed power markets and the additional expertise gained from hiring TransAlta's transmission specialists is expected to lead to more opportunities in the power transmission field.

SNC-Lavalin has also expanded its investments in airport concessions. It has held a 23.3% interest in the Vatry Airport Operating Company under a 20-year term agreement since 2000. Vatry Airport is an airfreight facility located in the Marne Department of France in the heart of Europe. Two-thirds of all freight traffic in the European Union is concentrated within 800 km of the airport. In July 2002, as a member of the Malta Mediterranean Link consortium, SNC-Lavalin acquired an indirect 15.5% interest in Malta International Airport p.l.c. under a 65-year concession agreement. Malta International Airport p.l.c. is the concessionaire of the Airport. The Maltese government retains a 40% ownership, and the remaining 20% is publicly owned and traded on the Malta Stock Exchange.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

1. HIGHLIGHTS / MAJOR EVENTS OF 2002

SALE OF A PORTION OF THE INVESTMENT IN 407 INTERNATIONAL INC.

- In March 2002, SNC-Lavalin sold 45 million shares (or 25.7%) of its 175 million share investment in 407 International Inc., which operates, maintains and manages highway 407, an all-electronic toll highway of 108 kilometers in the Greater Toronto area, for a total consideration of $177.6 million, nearly four times its original value.
- The sale generated an after-tax gain of $121.3 million.
- SNC-Lavalin's current participation in 407 International Inc. is 16.77%.

AWARD OF GAS-FIRED THERMAL POWER PLANTS

- In May 2002, SNC-Lavalin expanded its thermal power business by hiring about 5,000 employees and signing new engineering, procurement and construction ("EPC") contracts, totalling approximately $1.0 billion, to complete construction of gas-fired thermal power plants in the United States ("gas-fired power plants").
- Revenues in 2002 for the "gas-fired power plants" amounted to approximately $0.8 billion, representing 24% of total consolidated revenues of the Company.
- Backlog relating to "gas-fired power plants" was approximately $0.2 billion as at December 31, 2002.

INCREASE IN 2002 NET INCOME

- Consolidated net income increased to $202.5 million in 2002 compared to the reported amount of $26.4 million in 2001.
- Excluding Highway 407, comparable net income increased to $89.5 million in 2002 from $73.8 million in 2001 (excluding amortization of goodwill), resulting mainly from increased contributions in the Power, Mining and Metallurgy, Investments and Defence segments.
- Net income from Highway 407 increased to $113.0 million in 2002 compared to a loss of $32.7 million in 2001, due in large part to the gain on the sale of a portion of the investment in Highway 407.

INCREASE IN 2002 REVENUES

- Consolidated revenues increased by 47.5% to $3,431.6 million in 2002 from $2,326.8 million in 2001.
- Most significant increase was in Packages revenues, namely in the Power, Chemicals and Petroleum and Infrastructure segments.

STRONG BALANCE SHEET POSITION

- The Company's balance sheet position as at December 31, 2002 remained very solid, with a strong cash position, as well as a recourse debt to capital ratio of 15:85, well within the Company's maximum threshold set at 30:70.
- Consolidated cash, cash equivalents and short-term investments increased to $491.6 million in 2002, an increase of 52.1% compared with 2001.
- Increase in cash position was due mainly to cash flow from operations and the sale of a portion of SNC-Lavalin's investment in Highway 407, partially offset by investing activities.
- As at December 31, 2002, goodwill was $66.1 million, representing 11.1% of the consolidated shareholders' equity.

BACKLOG AS AT DECEMBER 31, 2002

- Consolidated revenue backlog increased to $4.2 billion at the end of 2002, an increase of 19.2% compared to 2001 year-end position.
- Major increases were in the Chemicals and Petroleum, Infrastructure and Power segments.

MAJOR BUSINESS ACQUISITIONS AND INVESTMENTS

- In April 2002, the AltaLink Consortium, in which SNC-Lavalin holds a 50% participation, acquired approximately 12,000 km of electrical transmission lines and over 250 substations in Alberta, which are rate regulated by The Alberta Energy & Utilities Board.
- In April 2002, SNC-Lavalin acquired Société Boplan, an engineering firm with about 100 employees based in western France.
- In July 2002, SNC-Lavalin acquired an indirect interest of 15.5% in Malta International Airport p.l.c. ("MIA"), which acquired the right to own and manage the Malta International Airport under a 65-year concession agreement.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following analysis and discussion is intended to enhance the understanding of the audited consolidated financial statements and accompanying notes, and should therefore be read in conjunction with these documents. Statements made in this report that describe the Company's or management's objectives, projections, estimates, expectations or predictions of the future may be "forward-looking statements", which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "estimates", "anticipates", or the negative thereof or other variations thereon. The Company cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes.

2. OVERVIEW

2.1 OUR BUSINESS

Along with providing engineering, procurement, construction, project management and project financing services to specific industry segments, such as Power, Chemicals and Petroleum, Infrastructure, Mining and Metallurgy and All Other, SNC-Lavalin's activities include long-term outsourcing services mainly in the Facilities and Operations Management segment, as well as manufacturing activities within the Defence segment.

SNC-Lavalin also makes selective investments in concession-type projects that require the capability to bring together a variety of skills ranging from technical, project management and financing.

2.2 OUR BUSINESS STRATEGY

SNC-Lavalin's business strategy consists of the following:

- Build on its recognized expertise in its core sectors and develop new expertise in technical fields with promising growth opportunities;
- Use its financing capabilities to enhance its competitiveness in major projects;
- Combine its technical expertise and financial capabilities to develop and acquire infrastructure concessions with solid fundamentals and potential;
- Continue to leverage the international network it has built up over nearly 40 years.

SNC-Lavalin's business strategy and operating efficiencies, combined with a culture of financial accountability among its work force, have permitted the Company to achieve sustained results for over a decade.

2.3 HOW WE ANALYZE OUR RESULTS

The accounting treatment for our investment in 407 International Inc. under Canadian Generally Accepted Accounting Principles ("GAAP"), requires proportionate consolidation as it relates to joint venture accounting. Under such accounting treatment, the Company records on a line-by-line basis its proportionate share (currently 16.77%) of the balance sheet, income statement and cash flow statement of Highway 407 in the Company's consolidated financial statements. Based on the significant effect of Highway 407 on the Company's consolidated financial statements (e.g., reflecting $596.6 million in non-recourse long-term debt from Highway 407 as at December 31, 2002 compared to the Company's total shareholders' equity of $597.1 million as at December 31, 2002), the current accounting treatment (proportionate consolidation) does not reflect the way the Company views the nature of the equity investment in Highway 407.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Therefore, the Company presented, in note 17 to the 2001 consolidated financial statements, in each of its quarterly statements for 2002, as well as in note 2 to the annual 2002 consolidated financial statements, its results using the equity method, as opposed to proportionate consolidation, to account for the Highway 407 investment. The Company is aware that showing Highway 407 results as an equity investment is not the accounting treatment required by Canadian "GAAP", yet this accounting treatment could be appropriate under United States "GAAP" requirements.

In order to provide the reader with a greater understanding of the Company's underlying assets, earnings base and financial resources, to facilitate analysis of each of SNC-Lavalin's activities, and to reflect the way the Company views the nature of this investment, the following analyses and additional financial information have been prepared with the Company's investment in Highway 407 accounted for on the equity basis, thereby enabling the Company to identify the results from engineering and construction and other concession-type activities separately from Highway 407.

2.3.1 RESULTS EXCLUDING HIGHWAY 407

Results, excluding Highway 407, are evaluated and reported by the Company based on **industry segments**, and are also reported by **category of activities**.

Results by Industry Segments

The Company's results are primarily evaluated by industry segment. These industry segments are: Power, Chemicals and Petroleum, Infrastructure, Mining and Metallurgy, Facilities and Operations Management, Defence, Investments and All Other.

These industry segments regroup business units with related activities within SNC-Lavalin. Accountability for these business units rests with senior executives, whereby bonuses are based on the performance of their respective business units.

- Power, Chemicals and Petroleum, Infrastructure, Mining and Metallurgy and All Other industry segments incorporate both Services and Packages activities and are derived primarily from cost-plus and fixed-price contracts.
- Facilities and Operations Management segment, whose major activities are the long-term outsourcing of integrated management services and solutions, and Defence segment, whose major activities include the manufacturing of ammunition, are concession-type activities with recurring revenues.
- Investments segment consists of SNC-Lavalin's investments in specific concessions, for which accountability lies with the SNC-Lavalin Investment division.

Results by Category of Activities

Management also reviews results by category of activities (i.e., Services, Packages and Concessions) in order to assess the overall Company performance. Furthermore, as Services, Packages and Concessions activities provide different gross margin yields and have different risk profiles, management reviews the performance of these activities independently.

- Services revenues are generated by providing professional services, including engineering, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning, and are derived from cost-plus contracts and fixed-fee contracts.
- Packages revenues, in which SNC-Lavalin also undertakes procurement and/or construction activities, are generated mainly from lump-sum turnkey projects, derived largely from fixed-price contracts.
- Concessions revenues represent SNC-Lavalin's activities from investments in companies arising from privatization, public-private partnerships, long-term outsourcing and other concession-type arrangements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

3. OVERALL FINANCIAL PERFORMANCE AND 2003 OUTLOOK

SELECTED FINANCIAL INDICATORS

(IN THOUSANDS OF DOLLARS)	2002	2001	INCREASE
NET INCOME (LOSS)			
Excluding Highway 407, before amortization of goodwill	$ **89,511**	$ 73,805	$ 15,706
Amortization of goodwill (net of income taxes)	–	(14,611)	14,611
Excluding Highway 407, as reported	89,511	59,194	30,317
Highway 407, net of consolidation eliminations	**(16,858)**	(32,748)	15,890
Net gain on disposal of a portion of the investment in 407 International Inc.	**115,204**	–	115,204
Gain on dilution of investment in 407 International Inc.	**14,673**	–	14,673
From Highway 407	113,019	(32,748)	145,767
CONSOLIDATED NET INCOME, AS REPORTED	$ 202,530	$ 26,446	$ 176,084

3.1 CONSOLIDATED NET INCOME

Consolidated net income was $202.5 million compared with the reported net income of $26.4 million in 2001 explained by the following:

Favourable impact of **$30.3 million from net income Excluding Highway 407**, which includes:

- **$15.7 million, or 21.3% growth in net income Excluding Highway 407**, resulting mainly from increased contributions in the Power, Mining and Metallurgy, Investments and Defence segments.
- $14.6 million due to the non-amortization, in 2002, of goodwill resulting from the change in accounting policy (refer to note 1h to the consolidated financial statements).

Favourable impact of **$145.8 million from Highway 407**, which includes:

- A gain of $115.2 million related to the disposal of a portion of the investment in 407 International Inc., which is net of compensation for related transaction and structuring services rendered by SNC-Lavalin Investment and SNC-Lavalin Capital of $6.1 million in 2002 (refer to note 3 to the consolidated financial statements).
- A dilution gain of $14.7 million resulting from the deemed conversion of 407 International Inc.'s subordinated convertible debenture into common shares, effective January 1, 2002 (refer to note 3 to the consolidated financial statements).
- $15.9 million lower proportionate share of accounting losses from Highway 407 (including consolidation eliminations) mainly due to a reduced ownership level in 2002.

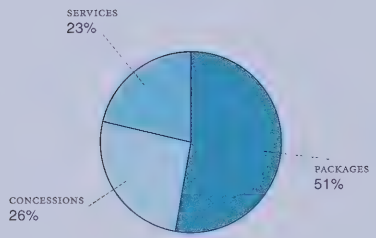
MANAGEMENT'S DISCUSSION AND ANALYSIS

3.2 CONSOLIDATED REVENUES

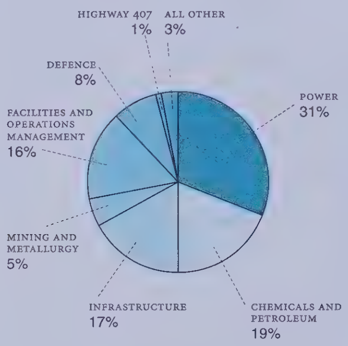
Consolidated revenues increased by 47.5% to $3,431.6 million in 2002 from $2,326.8 million in 2001, reflecting:

- 33.3% increased activity in Services contracts, mainly in the Chemicals and Petroleum, Power and Infrastructure segments.
- Activity doubled in Packages contracts, resulting from increases in the Power, Infrastructure and Chemicals and Petroleum segments.
- Concessions activities were in line with 2001.

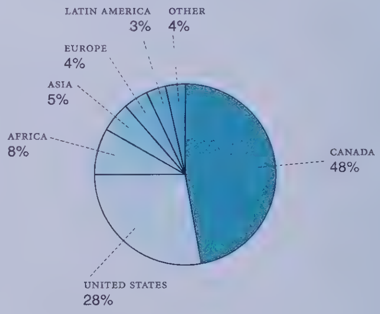
2002 REVENUES BY CATEGORY



2002 REVENUES BY INDUSTRY SEGMENT



2002 REVENUES BY GEOGRAPHIC SEGMENT



Revenues of $821.4 million were generated from the "gas-fired power plants" in 2002, which impacted the Packages revenues, as well as the Power segment and the geographic revenues stemming from the United States.

The diversity of the Company's revenue base and its flexibility to operate in different categories as well as geographic and industry segments, have been key elements in its sustained performance over the last decade, despite the year by year variation in the respective percentages.

3.3 ECONOMIC TRENDS

The Canadian economy rebounded in 2002, with an expected growth of 3.5 % in the Canadian gross domestic product (GDP), after a performance of 1.5 % growth in 2001. In 2003, Canada is expected to continue to outpace all G7 economies, with GDP growth hovering around 3.5%, in line with the overall global economy. Expected increases in non-residential investment spending and expected continued improvements in commodity prices bode well for new engineering and construction opportunities in Canada in 2003.

The global economy experienced slower economic growth when compared to Canada, with GDP growth expected at 2.6% in 2002. The outlook for the engineering and construction industry remains positive, as global economic growth is expected to gradually recover, with an expected 3.5 % GDP growth in 2003.

3.4 COMPANY OUTLOOK

Given the current economic context and expected growth in the Canadian and overall global economies, SNC-Lavalin is well placed to benefit from its sectoral diversity and well-established presence both inside and outside Canada. The combination of numerous opportunities in Canada as well as outside Canada, together with the Company's strong opening backlog in all segments and healthy financial position, provides a solid basis for continued growth in the year ahead.

MANAGEMENT'S DISCUSSION AND ANALYSIS

4. GEOGRAPHIC BREAKDOWN OF REVENUES

GEOGRAPHIC BREAKDOWN OF REVENUES

(IN MILLIONS OF DOLLARS)	2002		2001	
CANADA	**$ 1,622.3**	**48%**	$ 1,549.6	67%
OUTSIDE CANADA				
United States	**949.4**	**28%**	102.1	4%
Africa	**283.4**	**8%**	117.1	5%
Asia	**187.3**	**5%**	244.5	10%
Europe	**142.8**	**4%**	85.0	4%
Latin America	**119.6**	**3%**	130.3	6%
Other	**126.8**	**4%**	98.2	4%
	1,809.3	**52%**	777.2	33%
TOTAL REVENUES	**$ 3,431.6**	**100%**	$ 2,326.8	100%

4.1 REVENUES IN CANADA

In 2002, **revenues in Canada increased to $1,622.3 million**, compared with $1,549.6 million in 2001, mainly due to higher activity in the Chemicals and Petroleum segment, partially offset by slightly lower revenues within the Infrastructure and Facilities and Operations Management segments.

In 2003, **revenues in Canada are expected to decrease slightly**, resulting from lower activities in the Chemicals and Petroleum and Infrastructure segments, partially offset by expected higher contributions from Facilities and Operations Management.

4.2 REVENUES FROM OUTSIDE CANADA

In 2002, **revenues from outside Canada increased to $1,809.3 million** compared with $777.2 million in 2001.

- Revenues generated in the United States increased to $949.4 million in 2002 from $102.1 million in 2001, mainly due to the "gas-fired power plants", however this contribution is not expected to be repeated in 2003 with the completion of these plants.
- Revenues generated in Africa were $283.4 million in 2002 compared with $117.1 million in 2001, mainly reflecting greater activity in the Infrastructure segment.
- Revenues from Asia in 2002 of $187.3 million decreased compared with 2001 revenues of $244.5 million, due in large part to lower activity in the Power and Infrastructure segments.
- Revenues from Europe were $142.8 million in 2002 compared with $85.0 million in 2001, reflecting increased activity in the Infrastructure, Mining and Metallurgy and Defence segments.
- Revenues from Latin America were $119.6 million in 2002 compared with $130.3 million in 2001, mainly due to decreased activity in the Chemicals and Petroleum segment, partially offset by higher activity in Infrastructure.
- Revenues from other regions, including Eurasia and the Middle East, increased by 29.1% in 2002 as a result of increased activity in the Chemicals and Petroleum segment, partially offset by lower activities in the Infrastructure segment.

In 2003, **the Company expects revenues from outside Canada to decrease**. Recent awards in the Infrastructure and Chemicals and Petroleum segments, together with several opportunities in Africa, Asia and Latin America, should partially offset the impact of the completion of the "gas-fired power plants" in 2003, for which contracts of $1.0 billion were awarded in May 2002 and $0.8 billion were recorded as revenues in 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

5. BREAKDOWN OF INCOME STATEMENT

As mentioned earlier, and as in previous years, the Company presents additional financial information with Highway 407 accounted for on an equity basis (refer to note 2 to the consolidated financial statements) in order to facilitate the discussion and analysis of each of SNC-Lavalin's activities. The following discussion and analysis has been prepared for the Excluding Highway 407 component.

FINANCIAL RESULTS (EXCLUDING HIGHWAY 407)

(IN THOUSANDS OF DOLLARS)	2002		2001	
REVENUES				
Services	$ 777,221		$ 583,168	
Packages	1,769,836		885,278	
Concessions	833,795		814,713	
	$3,380,852		$2,283,159	
GROSS MARGIN				
Services	$ 183,885	23.7%	$ 144,071	24.7%
Packages	141,010	8.0%	107,439	12.1%
Concessions	111,408	13.4%	83,434	10.2%
	436,303	12.9%	334,944	14.7%
ADMINISTRATIVE, MARKETING AND OTHER EXPENSES	292,176		228,340	
INTEREST AND CAPITAL TAXES	10,990		562	
INCOME BEFORE INCOME TAXES AND AMORTIZATION OF GOODWILL	133,137		106,042	
INCOME TAXES	43,626		32,237	
INCOME BEFORE AMORTIZATION OF GOODWILL	89,511		73,805	
AMORTIZATION OF GOODWILL (NET OF INCOME TAXES)	–		14,611	
NET INCOME EXCLUDING HIGHWAY 407 – AS REPORTED	$ 89,511		$ 59,194	

5.1 REVENUE AND GROSS MARGIN ANALYSIS

Revenues grew 48.1% over last year, better than expected.

- Services revenues increased by 33.3%.
- Packages revenues doubled compared to 2001.
- Concessions revenues remained in line with last year.

Gross margin increased to $436.3 million in 2002 compared with $334.9 million in 2001, an increase of $101.4 million. Despite the lower gross-margin-to-revenue ratio, the gross margin increased by 30.3% over last year mainly as a result of increased volume.

MANAGEMENT'S DISCUSSION AND ANALYSIS

5.1.1 SERVICES REVENUES AND GROSS MARGIN

Services revenues increased by 33.3% to $777.2 million in 2002 compared with $583.2 million in 2001, mainly due to higher activity in Chemicals and Petroleum, Power and Mining and Metallurgy segments with projects such as:

- The detailed engineering and procurement services for an upgrader expansion oil sands project in Fort McMurray, Alberta.
- The joint venture contract to provide Front End Engineering Design (FEED) work on the Alma platform off the coast of Nova Scotia.
- The relocation and decommissioning of the Sulphur In Gasoline (SIG) unit in Edmonton.

Gross margin for the Services category was $183.9 million in 2002 compared with $144.1 million last year, reflecting higher volume, partially offset by a slight decrease in the gross margin ratio to 23.7% in 2002 compared with 24.7% in 2001, mainly in the Chemicals and Petroleum segment.

A combination of a strong opening backlog, opportunities both inside and outside Canada, and the acquisition of Texas-based GDS Engineers, Inc., in January 2003, which provides services to the refining, chemical and petrochemical industries, **is expected to result in an increase in Services revenues in 2003**.

5.1.2 PACKAGES REVENUES AND GROSS MARGIN

Packages revenues doubled over last year, increasing to $1,769.8 million in 2002 compared with $885.3 million in 2001.

PACKAGES REVENUES

(IN THOUSANDS OF DOLLARS)	2002	2001	INCREASE	%
Packages revenues without "gas-fired power plants"	$ **959,502**	$ 885,278	$ 74,224	8.4%
"Gas-fired power plant" revenues	**810,334**	–	810,334	–
Packages revenues	**$1,769,836**	$ 885,278	$ 884,558	99.9%

The "gas-fired power plants" were the major reason for the increase, contributing $810.3 million or 45.8% of total Packages revenues. Packages activities without the "gas-fired power plants" also contributed to the Packages revenues, with an increase of $74.2 million or 8.4% over last year, mainly in the Infrastructure and Chemicals and Petroleum segments, reflecting progress in ongoing projects and other work on major projects awarded in the second half of 2001 and early 2002, such as:

- The construction of a water supply transfer system (Plan d'Urgence SAA), Algeria.
- The EPC contract to build a polytrimethylene terephthalate (PTT) plant, Canada.
- The lump-sum turnkey EPC contract for a pyrite burning sulphuric acid plant, Turkey.
- The Sarir Plant contract for the rehabilitation of a PCCP plant as well as the fabrication of 15,000 pipes, and the PCCP repairs project for the restoration of concrete cylinder pipes along the Sarir-Sirt/Tazerbo-Benghazi conveyance lines, Libya.

The overall Packages gross margin increased by 31.2% to $141.0 million in 2002 from $107.4 million in 2001, reflecting the increase in Packages revenues. The gross-margin-to-revenue ratio did not increase proportionally to the increase in revenues reflecting:

- Packages activities without the "gas-fired power plants", contributed a gross-margin ratio of 9.7% in 2002 compared to 12.1% in 2001, mainly due to lower margins in 2002 on early stage projects and higher gross margins in 2001 on projects nearing completion.
- The "gas-fired power plants" produced a gross-margin-to-revenue ratio of 6.0%, as 70% of these contracts were signed on a cost-plus basis, thereby generating lower margins than the usual Packages fixed-price projects.

Packages revenues for 2003 are expected to decrease reflecting the completion, in 2003, of the "gas-fired power plants," partially offset by an expected increase in the Infrastructure segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

5.1.3 CONCESSIONS REVENUES AND GROSS MARGIN

Concessions activities mainly include the ProFac subsidiary, which is involved in facilities and operations management, as well as investments in concession-related companies. Also part of the Concessions activities is the Defence segment involved in the manufacturing of ammunition and propellant and propulsive powder for military, commercial and automotive markets.

CONCESSIONS REVENUES BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

(IN THOUSANDS OF DOLLARS)	2002	2001	INCREASE (DECREASE)	%
Facilities and Operations Management	$ **526,993**	$ 558,315	$ (31,322)	(5.6%)
Defence	**277,418**	211,355	66,063	31.3%
Investments	**13,794**	5,723	8,071	141.0%
All Other	**15,590**	39,320	(23,730)	(60.4%)
	$ **833,795**	$ 814,713	$ 19,082	2.3%

Concessions revenues of $833.8 million in 2002 were in line with 2001, reflecting the increase in the Defence segment, due to the impact of the first full year of operations of EXPRO TEC, which was acquired in December 2001, almost fully offset by lower revenues in the Facilities and Operations Management segment.

Concessions gross margin increased to $111.4 million in 2002 compared with $83.4 million in 2001 reflecting higher proportionate activity in Defence, which typically generates higher margins than other concession activities, as well as an additional favourable impact from the Company's expanded investment portfolio.

With higher contributions expected from the Facilities and Operations Management segment together with continued contributions from the Defence and Investments segments, **the Company expects 2003 Concessions revenues to be higher than 2002.**

5.2 ADMINISTRATIVE, MARKETING AND OTHER EXPENSES ANALYSIS

Administrative, marketing and other expenses were $292.2 million in 2002 compared with $228.3 million in 2001, excluding goodwill amortization. Traditionally, these expenses, with the exception of the impact of business acquisitions, have not increased significantly year after year as these expenses are well controlled by the Company. In 2002, the 48% increase in revenues, largely due to businesses acquired in the second half of 2001 and in 2002, as well as an increase in marketing and proposal efforts in 2002 mainly in the transport sector, have resulted in a 28.0% increase in administrative, marketing and other expenses over last year. The Company continues to maintain an appropriate balance between revenues and administrative expenses, while maintaining the necessary investment in marketing and selling activities to achieve growth.

The Company expects 2003 administrative, marketing and other expenses to decrease mainly relating to the higher level of marketing efforts in the transport sector in 2002, as well as the appropriate adjustments in the size of the thermal power operations to be in line with reduced revenue expectations.

5.3 INTEREST AND CAPITAL TAXES ANALYSIS

Interest and capital taxes expenses were $11.0 million in 2002 compared with $0.6 million in 2001. This variance was mainly due to allocated interest revenue of $8.8 million in 2001 relating to the original investment in Highway 407. In 2002, there was no allocated interest revenue on this investment, since SNC-Lavalin recovered its entire investment upon the sale of a portion of SNC-Lavalin's interest in Highway 407 (refer to note 16 to the consolidated financial statements).

5.4 INCOME TAXES ANALYSIS

The Company's 2002 effective income tax rate, excluding Highway 407, was 32.8% compared with 30.4% in 2001. The Company expects the 2003 effective tax rate, excluding Highway 407, to remain in line with 2002.

The consolidated effective tax rate, excluding goodwill amortization was 26.4% in 2002 compared with 42.4% in 2001. The decrease in the consolidated effective income tax rate is mainly explained by the non-taxable portion of the capital gain from disposal of a portion of the investment in 407 International Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

6. BACKLOG

REVENUE BACKLOG

AT DECEMBER 31 (IN MILLIONS OF DOLLARS)	2002	2001	%
BY CATEGORY			
Services	$ 416.2	$ 389.7	6.8%
Packages	1,715.4	885.0	93.8%
Concessions	1,695.0	1,710.5	(0.9%)
TOTAL – EXCLUDING HIGHWAY 407	3,826.6	2,985.2	28.2%
FROM HIGHWAY 407	342.8	511.8	(33.0%)
CONSOLIDATED REVENUE BACKLOG	$ 4,169.4	$ 3,497.0	19.2%
BY REGION			
Canada			
Excluding Highway 407	$ 1,973.0	$ 2,164.2	(8.8%)
From Highway 407	342.8	511.8	(33.0%)
Total Canada	2,315.8	2,676.0	(13.5%)
Outside Canada	1,853.6	821.0	125.8%
TOTAL	$ 4,169.4	$ 3,497.0	19.2%

Revenue backlog, excluding Highway 407, increased by 28.2% to $3.8 billion at the end of 2002, compared to a backlog of $3.0 billion at the end of 2001.

- Services backlog increased by 6.8%.
- Packages backlog grew most significantly with an increase of 93.8%.
- Concessions backlog remained at the same level as 2001.
- Backlog from Canada, excluding Highway 407, decreased by 8.8% mainly in the Chemicals and Petroleum, Defence and Infrastructure segments, partially offset by an increase in the Mining and Metallurgy segment.
- Backlog outside Canada increased by 125.8% over last year, reflecting higher activity in the Chemicals and Petroleum, Infrastructure and Power segments.

6.1 SERVICES BACKLOG

Services backlog increased by 6.8% to $416.2 million at the end of 2002 compared with $389.7 million in 2001, reflecting an increase in the Mining and Metallurgy and Infrastructure segments, partially offset by a decrease in the Chemicals and Petroleum segment.

BREAKDOWN OF SERVICES BACKLOG

(IN MILLIONS OF DOLLARS)	2002	2001	%
Opening Backlog	$ 389.7	$ 370.0	5.3%
Add: Contract bookings in the year	803.7	602.9	33.3%
Less: Revenues recognized in the year	777.2	583.2	33.3%
Ending backlog	$ 416.2	$ 389.7	6.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total bookings for 2002 were $803.7 million compared to $602.9 million in 2001, with notable contract awards such as:

- The engineering, procurement and construction management ("EPCM") for the increased capacity of the Aluminerie Alouette Inc.'s aluminum smelter, in Canada, in Mining and Metallurgy.
- The detailed engineering and procurement services for an upgrader expansion oil sands project in Fort McMurray, Alberta in Chemicals and Petroleum.
- The decommissioning and reclamation of the Polaris Mine in the Canadian High Arctic in Mining and Metallurgy.
- The engineering and construction supervision of all rehabilitation and upgrading activities related to the existing Cameron Highlands hydro stations in Malaysia in Power.
- The relocation and decommissioning of the Sulphur In Gasoline (SIG) unit in Edmonton in Chemicals and Petroleum.
- The joint contract to modernize and automate a copper electro-refinery in Chuquicamata, Chile in Mining and Metallurgy.

6.2 PACKAGES BACKLOG

Packages backlog almost doubled to $1,715.4 million in 2002 compared with $885.0 million in 2001, due mainly to increases in Infrastructure, Chemicals and Petroleum and Power segments.

BREAKDOWN OF PACKAGES BACKLOG

(IN MILLIONS OF DOLLARS)	**2002**	2001	%
Opening Backlog	$ **885.0**	$ 1,163.9	(24.0%)
Add: Contract bookings in the year	**2,599.7**	584.3	344.9%
Less: Revenues recognized in the year	**1,769.3**	863.2	105.0%
Ending backlog	$ **1,715.4**	$ 885.0	93.8%

Packages bookings in 2002 totaling $2,599.7 million compared to $584.3 million in 2001, included contracts such as:

- The contracts in the Power segment totalling approximately $1.0 billion, to complete construction of gas-fired thermal power plants in the United States.
- The Sarir plant contract for the rehabilitation of a PCCP plant as well as the fabrication of 15,000 pipes in Libya, in Infrastructure.
- The contract for the EPC of an anhydrous ammonia production plant in Australia, in Chemicals and Petroleum.
- The contract to build a water supply transfer system (Plan d'Urgence SAA) in Algeria, in Infrastructure.
- The EPC contract to build a polytrimethylene terephthalate (PTT) plant in Canada, in Chemicals and Petroleum.
- The contract to carry out an emergency water project for the city of Skikda Algeria, in Infrastructure.
- The contract for the design, construction and first year of operational support of the Saih Nihayda Gas Plant in Oman, in Chemicals and Petroleum.
- The turnkey contract for the EPC of the Iroquois Falls Hydroelectric Project in Ontario, in Power.

The ending Packages backlog in 2002 excluding the "gas-fired power plants" increased by $675.5 million or 76.3%, a significant increase compared to 2001. The "gas-fired power plants" contributed $154.9 million to the December 31, 2002 Packages backlog, representing the work to be completed in 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

6.3 CONCESSIONS BACKLOG

Concessions backlog is calculated according to a five-year rolling basis where there are recurring revenues, which are supported by signed contracts or concession agreements.

BREAKDOWN OF CONCESSIONS BACKLOG

AT DECEMBER 31 (IN MILLIONS OF DOLLARS)	2002	2001	%
Facilities and Operations Management	$ **1,131.7**	$ 1,149.6	(1.6%)
Defence	**560.1**	560.8	(0.1%)
Other	**3.2**	0.1	–
TOTAL CONCESSIONS –			
EXCLUDING HIGHWAY 407	**1,695.0**	1,710.5	(0.9%)
FROM HIGHWAY 407	**342.8**	511.8	(33.0%)
TOTAL CONCESSIONS	$ **2,037.8**	$ 2,222.3	(8.3%)

Concessions backlog excluding Highway 407 was $1,695.0 million in 2002 compared with $1,710.5 million in 2001, as both the Facilities and Operations Management and Defence segments remained at the same level as 2001. The decrease in the Highway 407 backlog is due mainly to a reduced ownership level in 2002 from 26.92% as at December 31, 2001 to 16.77% as at December 31, 2002.

7. OPERATING RESULTS BY INDUSTRY SEGMENT

As mentioned previously, the Company's results are primarily evaluated by industry segment, in which each of the Company's segmented results, namely the Power, Chemicals and Petroleum, Infrastructure, Mining and Metallurgy, Facilities and Operations Management, Defence, Investments and All Other are used as a basis for accountability by management. The following discussion and analysis has been prepared for the Excluding Highway 407 component (refer to note 16 to the consolidated financial statements for reconciliation to consolidated net income).

REVENUES BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

	2002		2001	
(IN THOUSANDS OF DOLLARS)	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME (LOSS)
Power	**$1,077,354**	$ **33,499**	$ 303,182	$ 15,602
Chemicals and Petroleum	**631,716**	**32,384**	420,661	32,505
Infrastructure	**575,156**	**22,756**	480,177	27,550
Mining and Metallurgy	**168,887**	**13,722**	143,156	7,362
Facilities and Operations Management	**526,993**	**11,832**	558,315	12,582
Defence	**277,418**	**16,311**	211,355	12,427
Investments	**13,794**	**7,699**	5,723	1,776
All other	**109,534**	**6,895**	160,590	(1,390)
TOTAL	**$3,380,852**	$ **145,098**	$2,283,159	$ 108,414

MANAGEMENT'S DISCUSSION AND ANALYSIS

7.1 POWER

Power revenues increased to $1,077.4 million in 2002, an increase of $774.2 million, compared with $303.2 million in 2001. The major contributors to the revenue increase were:

- The "gas-fired power plant" contracts which totalled $821.4 million of revenues in 2002.
- The Alberta transmission project ("ATP") operations, providing EPC for the maintenance of existing installations and for the development of new electrical transmission lines in Calgary.
- The turnkey contract for the EPC of the Iroquois Falls Hydroelectric Project in Ontario.

The favourable increase was partially offset by lower activities on ongoing projects such as the Chamera II hydroelectric development in India and Thailand DMS turnkey contract to design, supply and install a distribution management system, and projects completed or nearing completion in 2002, such as the Qinshan-2 nuclear plant in China, the joint-venture turnkey contract to re-power the Queen Elizabeth Station in Saskatoon and the contract for the EPC of the new Omushkego Ishkotayo electrical transmission line along the western coast of James Bay.

Operating income totalled $33.5 million in 2002 compared with $15.6 million in 2001. Excluding the "gas-fired power plant" projects, operating income was $22.9 million, mainly reflecting contributions from projects nearing completion, which generated higher margins.

With the completion of the "gas-fired power plants", which generated revenues of $821.4 million in 2002 compared to the remaining backlog of $154.9 million for 2003, **the Company expects 2003 Power revenues to decrease significantly**.

In 2003, operating income should be lower based on the expected decrease in volume, however, the continued activities in the hydro, nuclear and thermal power sectors, combined with various opportunities for generation and transmission projects inside and outside Canada, provide a solid base for the Power segment in 2003.

7.2 CHEMICALS AND PETROLEUM

Revenues from Chemicals and Petroleum increased by 50.2% in 2002, totalling $631.7 million from $420.7 million in 2001, reflecting increased activity on projects such as:

- The design/build contract for a purified terephthalic acid (PTA) plant in Canada.
- The EPC contract to build a polytrimethylene terephthalate (PTT) plant in Canada.
- The detailed engineering and procurement services for an upgrader expansion oil sands project in Fort McMurray, Alberta.
- The joint venture contract to provide Front End Engineering Design (FEED) work on the Alma platform off the coast of Nova Scotia.
- The lump-sum turnkey EPC contract for a pyrite burning sulphuric acid plant in Turkey.

Operating income of $32.4 million in 2002 was in line with 2001 as the increase in revenues was fully offset by lower margins on certain projects.

Given its strong opening backlog position including contracts in Australia as well as offshore oil projects, the addition of the newly acquired GDS Engineers, Inc., together with continued activity from the major heavy oil and oil sands projects in Alberta, offset by the completion of certain major projects, **the Chemicals and Petroleum segment in 2003 is expected to remain in line with 2002**.

7.3 INFRASTRUCTURE

Infrastructure revenues increased by 19.8% over last year, totalling $575.2 million in 2002, compared with $480.2 million in 2001, reflecting higher activity in projects such as:

- The construction of a water supply transfer system (Plan d'Urgence SAA) in Algeria.
- The Sarir Plant contract for the rehabilitation of a PCCP plant as well as the fabrication of 15,000 pipes, and the PCCP repairs project for the restoration of concrete cylinder pipes along the Sarir-Sirt/Tazerbo-Benghazi conveyance lines, in Libya.
- The contract to carry out an emergency water project for the city of Skikda, Algeria.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The detailed engineering, procurement and construction of two chilled water plants at Zayed Military City in Suweihan, Abu Dhabi.
- The Bell Western telecommunications tower construction project in Canada that was completed in 2002.
- The detailed engineering, procurement and construction management of the extension of the Montreal Metro to Laval.
- The contract for tunnel construction on the Kuala Lumpur light rail transit system in Malaysia.

Despite higher revenues, **the 2002 operating income was $22.8 million** compared with $27.5 million in 2001, reflecting increased marketing and proposal efforts in the transport sector in 2002, combined with higher margins in 2001 on projects nearing completion.

With a strong beginning backlog entering 2003, coupled with several opportunities inside and outside Canada, **the Company expects an increase in 2003 Infrastructure revenues and operating income**.

7.4 MINING AND METALLURGY

Mining and Metallurgy revenues increased by 18.0% in 2002, totalling $168.9 million compared with $143.2 million in 2001, with notable contributions from the aluminum, copper, diamond, nickel and zinc sectors. In 2002, SNC-Lavalin was awarded the following contracts:

- The EPCM for the increased capacity of Aluminerie Alouette Inc.'s aluminum smelter, in Canada.
- The EPCM contract for the Hillside expansion project (Hillside 3), in South Africa.
- The Mozal 2, EPCM project to expand the recently completed Mozal 1 aluminum smelter near Maputo, Mozambique.
- The feasibility study for the Voisey's Bay nickel project in Newfoundland and Labrador.
- The Pechiney Vlissingen revamp project in the Netherlands.
- The joint contract to modernize and automate a copper electro-refinery in Chuquicamata, Chile.

Operating income was $13.7 million in 2002 compared with $7.4 million in 2001 reflecting higher activities and favourable margins in 2002.

The **Company expects continued growth in the Mining and Metallurgy segment for 2003**, due to the recovery in the price of gold, robust activity in aluminum due to a shift in production centres, an improvement in the price of nickel resulting from steady demand, continuing low inventories and a lack of any new capacity resulting in significant opportunities in Australia, South America, South Africa and Canada.

7.5 FACILITIES AND OPERATIONS MANAGEMENT

The major activities of this segment are the long-term outsourcing of integrated management services and solutions for facilities, infrastructure and real estate, as well the management of mission critical facilities, which are provided by SNC-Lavalin's wholly-owned subsidiary ProFac, as well as its subsidiaries.

Facilities and Operations Management revenues were $527.0 million in 2002 compared with $558.3 million in 2001, mainly due to slightly lower volume on ongoing contracts for Canada Post Corporation and Ontario Realty Corporation.

The operating income of $11.8 million in 2002 was in line with operating income of $12.6 million in 2001. A transitional goodwill impairment of $25.5 million was charged to opening retained earnings as at January 1, 2002 for this reporting unit. The Facilities and Operations Management reporting unit generates earnings based mostly on long-term contracts, which have uncertainty of contract renewals, and factoring such risk into the discounted cash flow analysis, a transitional goodwill impairment was identified. Despite such risks, this reporting unit has provided sustained contributions as a result of the renewal of several contracts and the award of a new contract in 2002.

A solid backlog entering 2003, combined with various business opportunities in Canada, is expected to provide the basis for **continued profitability in the Facilities and Operations Management segment in 2003**.

MANAGEMENT'S DISCUSSION AND ANALYSIS

7.6 DEFENCE

Defence revenues totalling $277.4 million in 2002, were 31.3% higher than 2001 revenues of $211.4 million, and operating income was $16.3 million for 2002 compared with $12.4 million in 2001. The increase in revenues and operating income was mainly due to the newly formed "EXPRO TEC", which acquired certain assets of EXPRO Chemicals Products Inc. in December 2001, a producer of an extruded propellant used in commercial and military products, combined with an increase in SNC TEC's international activities, mainly in the United States, Belgium, Australia and the Netherlands.

With strong beginning backlog entering 2003 in both the domestic and international markets, the increasing market demand for SNC-Lavalin's "SIMUNITION®" training products which are sold through a worldwide network of distributors, its versatility and capacity to handle lower-quantity production runs in the very specialized technical expertise it possesses, as well as SNC TEC's stable contribution over the years, the performance of the **Defence segment in 2003 is expected to remain in line with 2002**.

7.7 INVESTMENTS

Investments segment represents SNC-Lavalin's participation in investments such as:

- The **AltaLink Consortium**, in which SNC-Lavalin holds a 50% participation, which on April 29, 2002, acquired approximately 12,000 km of transmission lines and over 250 substations in Alberta, which are rate regulated by The Alberta Energy & Utilities Board.
- The indirect interest of 15.5%, concluded in July 2002, in **Malta International Airport p.l.c.** ("MIA"), which acquired the right to own and manage the Malta International Airport under a 65-year concession agreement.
- The 50% investment in **Gazmont**, in 1996, which operates a 23.5 MW biogas thermal power plant.
- The 21% investment in the **West End Dam Associates**, in 1985, a 4.5 MW mini-power generation facility in New York State.
- The 33.7% indirect investment in **Southern Electric Power Company Limited** in Pakistan in 1999, a 117 MW thermal power plant.
- The 50% participation in **Murraylink** in 2001, owner and operator of an interconnector between the electricity transmission grids of the Australian states of Victoria and South Australia, for which construction on the electricity transmission line was substantially completed at the beginning of the fourth quarter of 2002, and **Murraylink** has since requested it be converted from a non-regulated to a regulated line in order to achieve a more stable revenue flow.

These investments are accounted for using the equity or proportionate consolidation method depending on whether SNC-Lavalin exercises significant influence or joint control, respectively. In evaluating the performance of the segment, the relationship between revenues and operating income may not be meaningful, as a significant portion of these investments are accounted for using the equity method, which does not reflect the line by line items of the financial results.

Operating income was $7.7 million in 2002 compared with $1.8 million in 2001, reflecting SNC-Lavalin's expanded investment portfolio.

The Company expects the 2003 performance from the Investments segment to be in line with 2002.

7.8 ALL OTHER

All Other includes activities in pharmaceuticals and biotechnology, agrifood, pulp and paper, telecommunications as well as other industrial plants.

Revenues in 2002 totalled $109.5 million compared with $160.6 million in 2001, the decrease was mainly due to the completion, in 2001, of major projects in the pulp and paper sector and in the industrial plants, partially offset with increased activity from a Package contract for a biopharmaceutical facility in Canada.

Operating income for 2002 was $6.9 million compared with a loss of $1.4 million in 2001 partly due to the compensation for transaction and structuring services rendered by SNC-Lavalin Investment and SNC-Lavalin Capital for the sale of 25.7% of SNC-Lavalin's investment in 407 International Inc. In 2001, operating income included the underperformance of a telecommunication unit partially offset by the settlement of an insurance claim.

With the completion of major projects in the pharmaceutical sector, **the Company expects the performance of the All Other segment to decrease in 2003**.

MANAGEMENT'S DISCUSSION AND ANALYSIS

7.9 HIGHWAY 407

The following analysis highlights the operating results of SNC-Lavalin's participation in the Highway 407 concession. In 1999, SNC-Lavalin invested $175 million in common shares of 407 International Inc., representing a 26.92% (22.58% fully diluted) equity participation. On May 5, 1999, SNC-Lavalin and its partners, through 407 International Inc., acquired from the Government of Ontario, all of the issued and outstanding shares of 407 ETR Concession Company Limited, which operates, maintains and manages highway 407, an all-electronic toll highway in the Greater Toronto area. Highway 407 consists of three segments: the 68-kilometre highway 407 Central, the 15-kilometre highway 407 East Partial Extension and the 25-kilometre West Extension. Highway 407 Central has been open and operating since June 7, 1997. Highway 407 East Partial and West Extensions ("Extensions") were constructed and fully opened to traffic on August 30 and July 30, 2001, respectively. Effective January 1, 2002, the holder of 407 International Inc.'s subordinated convertible debenture ("Debenture") entered into an agreement with 407 International Inc. and its shareholders, whereby the holder irrevocably agreed to formally convert its Debenture into common shares of 407 International Inc. on May 6, 2004 or, subject to certain conditions, at an earlier date. This undertaking to convert into common shares is considered to be an immediate conversion of the Debenture, and effective January 1, 2002, has been accounted for as such, thereby diluting SNC-Lavalin's participation in the common shares of 407 International Inc. to 22.58% from 26.92%, and resulting in a gain of $14.7 million.

In March 2002, SNC-Lavalin sold 45 million shares (or 25.7%) of its 175 million share investment in 407 International Inc. to a third party for a total consideration of $177.6 million, nearly four times its original value (refer to note 3 to the consolidated financial statements).

Following these transactions, SNC-Lavalin's participation in the common shares of 407 International Inc. is 16.77%.

HIGHWAY 407

(IN THOUSANDS OF DOLLARS)	2002	2001
Highway 407 results (at 100% level)		
Revenues (Concessions)	**$ 310,972**	$ 244,051
Income before interest and taxes	**159,409**	126,694
Interest and capital tax	**(253,019)**	(217,237)
Loss before income taxes	**(93,610)**	(90,543)
Income taxes	**(5,497)**	(6,000)
Net loss	**$ (99,107)**	$ (96,543)
SNC-Lavalin's proportionate share		
Share of the net loss @ 22.58% and 16.77%(1)	**(18,337)**	–
Share of the net loss @ 26.92%(1)	**–**	(25,993)
Net gain on disposal of a portion of the investment in 407 International Inc.	**115,204**	–
Gain on dilution of investment in 407 International Inc.	**14,673**	–
Consolidation eliminations	**1,479**	(6,755)
Net income (loss), net of consolidation eliminations	**$ 113,019**	$ (32,748)

(1) The 2001 figures were calculated using a 26.92% participation in 407 International Inc. whereas the 2002 results of Highway 407 were calculated using a 22.58% participation from January 1 to March 31, and 16.77% thereafter.

Highway 407's revenues for the year ended December 31, 2002 increased by 27.4% over last year, reflecting toll rate increases, higher traffic, as well as the opening of the extensions in the third quarter of 2001. The average workday number of trips of 308,867 was 8.4% higher than 2001 while vehicle kilometres travelled (VKT), which represents the total kilometres travelled for all vehicles, was 1,806.1 million in 2002 compared with 1,600.8 million in 2001. Highway 407 revenues were in line with the base case forecast for 2002 established at the time of acquisition by Halcrow Fox, an international transportation planning consultant and transportation infrastructure expert.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net accounting loss (at 100% level) was $99.1 million in 2002 compared with $96.5 million in 2001 mainly due to higher interest expenses as Highway 407 ceased to capitalize interest charges upon completion of the highway extensions in the third quarter of 2001, and higher operating expenses, almost fully offset by higher revenues in 2002. Highway 407 anticipates a trend of diminishing losses into future periods in order to progress towards a break-even point in earnings.

As noted in prior years, SNC-Lavalin does not anticipate an accounting profit from its participation for the initial years of the 99-year concession. This is not unusual since highway concessions incur net accounting losses in the initial years, mainly due to the high levels of financing costs and depreciation expense. Positive cash flows generated from Highway 407, whereby the refinancing of the original debt was structured so as to match the expected revenues, have enabled 407 International Inc. to make dividend payments to its investors despite net accounting losses. Accordingly, Highway 407 paid SNC-Lavalin dividends totalling $11.8 million in 2002, which were only expected to be paid in 2003 based on the financial model used for this investment. Highway 407 expects to generate sufficient cash on a prospective basis to continue to pay quarterly dividends.

8. FINANCIAL POSITION AND RESOURCES

8.1 CASH POSITION (EXCLUDING HIGHWAY 407)

NET CASH POSITION (EXCLUDING HIGHWAY 407)

BALANCE AS AT DECEMBER 31 (IN MILLIONS OF DOLLARS)	**2002**	2001	2000	1999	1998
Cash, cash equivalents and short-term investments	$ **479.7**	$ 301.6	$ 242.7	$ 95.9	$ 217.6
Short-term and long-term debt	**157.7**	150.7	153.9	41.5	42.6
NET CASH POSITION	$ **322.0**	$ 150.9	$ 88.8	$ 54.4	$ 175.0

The 2002 increased cash position was mainly due to continued profitability coupled with the sale of a portion of the investment in 407 International Inc. As shown in the five-year table above, the Company has had a history of having significant net cash positions, which provides the Company the capability to seize opportunities for acquisitions and investments, evidenced in 1999 with its investment in Highway 407.

Cash, cash equivalents and short-term investments, excluding Highway 407, totalled $479.7 million in 2002 compared with $301.6 million in 2001.

The change in cash position over the past year was largely due to increases from:

- Positive cash flows from operations.
- Proceeds from the sale of a portion of SNC-Lavalin's investment in 407 International Inc.

This increase in cash was partially offset by:

- Acquisitions of businesses and investments.
- Acquisition of property, plant and equipment.
- Dividends paid to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

8.1.1 CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operating activities was $168.5 million in 2002 compared to $48.1 million in 2001, due mainly to the following:

- Continued earnings growth.
- Increase in cash generated from working capital resulting mainly from project advances in the Power and Infrastructure segments.

8.1.2 CASH GENERATED FROM INVESTING ACTIVITIES

Cash generated from investing activities was $45.6 million in 2002 compared with cash used of $60.1 million in 2001, resulting mainly from the proceeds of the sale of a portion of SNC-Lavalin's investment in 407 International Inc., partially offset by cash used for the acquisition of businesses and investments mainly relating to the **AltaLink Consortium** and an indirect interest of 15.5% in **Malta International Airport p.l.c.**

Cash was also used for acquisitions of property, plant and equipment of $43.2 million ($35.0 million in 2001) versus depreciation of property, plant and equipment of $36.9 million ($30.4 million in 2001), and as in 2001, a large portion of the property, plant and equipment acquisitions were for information technology, representing about 47%.

8.1.3 CASH USED FOR FINANCING ACTIVITIES

Cash used for financing activities was $15.2 million in 2002 compared to cash generated in 2001 of $67.4 million. The Company repurchased shares, under the normal course issuer bid, amounting to $17.3 million in 2002 and $6.4 million in 2001. Based on the Company's strong 2002 year-end financial position, the Company expects to be at least as active in repurchasing its shares, and proposes to introduce another one-year normal course issuer bid program when the current program expires in May 2003. Dividend per share was increased from $0.07 to $0.08 for the fourth quarter of 2001, and thereafter was increased to $0.09 for each of the first three quarters in 2002, resulting in a total cash outflow of $17.6 million. Cash was generated from the exercise of stock options amounting to $11.7 million in 2002 and $13.9 million in 2001. In 2001, the Company completed an offering to the public of three million common shares at $22 per share for net proceeds of $64.2 million.

8.2 REVOLVING CREDIT FACILITIES

The Company has access to $457.5 million of long-term revolving lines of credit. As at December 31, 2002, $96.4 million of the Company's credit lines remained unused, with the balance of $361.1 million used for the issuance of letters of credit. In addition, the Company has access to other lines of credit specifically for letters of credit.

Letters of credit are provided under the normal course of operations as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual holdbacks and bid bonds. Certain guarantees decrease in relation to the percentage of completion of projects. Historically SNC-Lavalin has fulfilled the necessary contractual obligations thereby obtaining release of such letters of credit upon completion.

8.3 WORKING CAPITAL

Working capital excluding Highway 407 as at December 31, 2002 was $250.6 million, compared with $209.5 million in 2001, an increase of $41.1 million. **The current ratio as at December 31, 2002 was 1.23** compared with 1.27 in 2001.

The working capital increase was due in large part to the contributions from operations and from the sale of a portion of SNC-Lavalin's investment in 407 International Inc., partially offset with the short-term liability resulting from the substantial completion of the transmission line relating to the Murraylink concession. Upon commencement of the commercial operations of this concession at the beginning of the fourth quarter of 2002, the Company began recording in its consolidated financial statements, its 50% share of the electrical transmission long-term assets and the total related short-term liability of the concession, as long-term financing has not yet been finalized.

MANAGEMENT'S DISCUSSION AND ANALYSIS

8.4 DEBT TO CAPITAL

The Company targets its recourse debt to capital ratio not to exceed 30%. As at December 31, 2002, **the Company's recourse debt to capital ratio was 15:85**.

8.5 CREDIT RATINGS

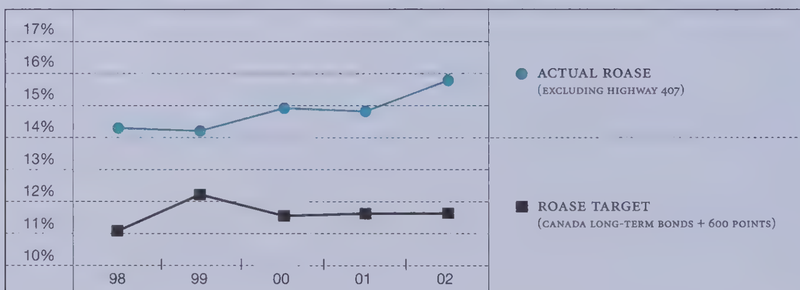
On May 17, 2002, Standard & Poor's placed the Company's BBB rating on CreditWatch with a negative outlook, following its announcement of new awards for the "gas-fired power plants". Thereafter, on June 4, 2002, Standard & Poor's removed the Company's ratings from CreditWatch and reaffirmed the Company's BBB rating with stable outlook, following a review of SNC-Lavalin's "gas-fired power plant" contracts of which 70% were signed on a cost-plus basis, and SNC-Lavalin's strategy for further growth in the power sector. Furthermore, on November 20, 2002, Dominion Bond Rating Service Limited (DBRS) confirmed the Company's BBB rating with a stable outlook.

8.6 FINANCIAL POSITION, ROASE AND ROCE

The Company has cash and short-term investments as well as access to sufficient sources of funds and credit facilities to meet its expected operating, investing and financing plans, including financing of business and concession acquisitions, share repurchase plan and business growth. In terms of the shareholders' capital adequacy, the Company seeks to maintain an adequate balance between ensuring sufficient capital for financing net asset positions, maintaining satisfactory bank credit lines and capacity to absorb project net retained risks on the one hand and to optimize return on weighted average shareholders' equity (ROASE) on the other.

8.6.1 RETURN ON WEIGHTED AVERAGE SHAREHOLDERS' EQUITY

ROASE excluding Highway 407, was 15.9% in 2002 compared with 14.8% reported in 2001, which is considerably higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points (11.68% in 2002).



8.6.2 RETURN ON CAPITAL EMPLOYED (ROCE)

ROCE, as calculated by the Company, corresponds to after-tax earnings before interest divided by total capital (average shareholders' equity plus average short and long-term borrowings less average cash and short-term investments). The ROCE calculation, is an indicator the Company uses to evaluate itself with its peers, and is not only an evaluation of the Company's return on capital, but also a gauge of the strength of the Company's financial position, whereby a company with a better net cash position will show a higher ROCE.

With the Company's strong financial position and its results in 2002, **ROCE excluding Highway 407 was 34.2% in 2002** compared with 27.4% in 2001, all while surpassing its ROASE objective, as mentioned above, reflecting the Company's ability to generate returns for shareholders and maintain a strong financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS

9. ACCOUNTING CHANGES IN 2002

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to "Goodwill and Other Intangible Assets", which require the adoption of the non-amortization approach for goodwill. The transitional impairment test of the existing goodwill as at January 1, 2002 indicated no impairment of goodwill except for the Facilities and Operations Management reporting unit for which a transitional goodwill impairment of $25.5 million was charged to opening retained earnings as at January 1, 2002 (refer to note 1h to the consolidated financial statements).

STOCK-BASED COMPENSATION

The Company also adopted the new recommendations of the CICA with respect to "Stock-Based Compensation and Other Stock-Based Payments" which apply to awards granted on or after the date of adoption. In accordance with the new recommendations, the Company elected to continue its current policy of not recording any compensation cost as an expense on the grant of stock options to employees and directors, and provides the necessary disclosure requirements as per the recommendations of the CICA (refer to notes 1p and 9c to the consolidated financial statements).

FOREIGN CURRENCY TRANSLATION

The Company also adopted the revised recommendations of the CICA with respect to the "Foreign Currency Translation" section (refer to note 1c to the consolidated financial statements).

10. RISK MANAGEMENT

SNC-Lavalin's business is conducted under various types of contractual arrangements, including cost-plus, fixed-fee, unit price, and firm price contracts as well as long-term outsourcing, investments and other concession-type arrangements. SNC-Lavalin has developed and applies rigorous risk assessment, mitigation and management practices to reduce the nature and extent of the financial, technical and legal risks under each of these types of contractual agreements.

SNC-Lavalin's continued commitment to sound risk management practices when underwriting and undertaking services and packages type contracts, includes technical risk assessment, rigorous drafting and legal review of contracts, applying stringent cost and schedule control of projects, the regular review of project forecasts to complete, the structuring of positive cash flow arrangements on projects, securing project insurance, obtaining third party guarantees and other risk mitigating measures. Maintaining insurance coverage for various aspects of its business and operations is an important element in SNC-Lavalin's risk management process. SNC-Lavalin elects, at times, to retain a portion of losses that may occur by applying selective self-insurance practices and professionally managing such retention through its regulated captive insurance company.

While management is positive about the Company's long-term outlook, SNC-Lavalin is subject to the following risks and uncertainties:

- **Cost Overruns**

SNC-Lavalin bears all or a significant portion of the risk for cost overruns for fixed-price contracts. Contract revenues and costs are established, in part, on estimates which are subject to a number of assumptions, such as those regarding future economic conditions price, availability of labour, equipment and materials and other requirements that may affect project cost.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- **Project Performance**

In certain instances, SNC-Lavalin may guarantee a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. Should the project or facility subsequently fail to meet the schedule or performance standards, SNC-Lavalin may incur additional costs.

- **Backlog**

Backlog only reflects contract awards that are considered firm, and is thus an indication of future revenues. However, there can be no assurance that cancellations or scope adjustments will not occur, or when revenues and earnings from such backlog will be realized.

- **Concession Investments**

Certain concession activities include SNC-Lavalin's investments in companies arising from privatization, and public-private partnerships as well as investments in other concession-type projects. The Company strives to limit its risk to the investment value in such concessions, whereby all risks associated with the operation and financing of these concessions remain at the concessionaire level. Erosion of the Company's investment value, which is dependent on the ability of the concession to attain its revenues and cost projections as well as the ability to obtain financing, is mitigated by sound risk management practices when investing in such concessions, such as:

- Independence of the Investment division from the engineering and construction groups within SNC-Lavalin.
- Detailed review and structuring of concession contract arrangements.
- Detailed analyses of the risks specific to each investment, such as environment and supply and demand estimates.
- Ensuring the financial strength of equity partners, as well as ensuring that the Company's interests in the concession are well aligned with those of its equity partners.
- In-depth financial modeling performed in-house, coupled with independent third party modeling review.
- Independent third party consultants to review financial projections and forecasts performed in-house.

- **Contract awards**

Obtaining new awards, which is a key component for the sustainability of profits, is a risk factor for which the diversity of SNC-Lavalin's activities, industry segments and geographic base have proven to be mitigating factors.

- **Joint venture partners**

The success of its joint ventures relies on the satisfactory performance of SNC-Lavalin's joint venture partners of their joint venture obligations. The failure of the joint venture partners to perform their obligations could impose on SNC-Lavalin additional financial and performance obligations that could result in increased costs.

- **Foreign currency risk**

The significant effect of international business volume could expose SNC-Lavalin to greater foreign currency exchange risks, which could adversely impact its operating results. SNC-Lavalin has a hedging strategy in place to protect itself against foreign currency exposure.

- **Economic and political conditions**

A significant portion of the Company's revenues is attributable to projects in international markets which exposes the Company to a number of risks, such as: uncertain economic conditions in the countries in which SNC-Lavalin does business, abrupt changes in foreign government policies and regulations, restrictions on the right to convert and repatriate currency, political risks due to international hostilities, and the lack of well-developed legal systems in some countries, which could make it difficult to enforce SNC-Lavalin's contractual rights. SNC-Lavalin has about 40 years of involvement in international markets, which provides a valuable source of experience in assessing risks related to economic and political conditions.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of SNC-Lavalin Group Inc. and all the financial information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it considers most appropriate for the circumstances.

The significant accounting policies used are described in note 1 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

SNC-Lavalin maintains systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that SNC-Lavalin's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and all of its members are outside directors. The Audit Committee meets periodically with management, as well as with the internal and external auditors, to discuss internal controls, accounting, auditing and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited, on behalf of the shareholders, by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. The external auditors have full and free access to the Audit Committee.

Jacques Lamarre

JACQUES LAMARRE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Gilles Laramée

GILLES LARAMÉE
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

MONTREAL, CANADA
FEBRUARY 14, 2003

AUDITORS' REPORT

To the shareholders of SNC-Lavalin Group Inc.

We have audited the consolidated balance sheets of SNC-Lavalin Group Inc. as at December 31, 2002 and 2001 and the consolidated statements of income, cash flows and shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of SNC-Lavalin Group Inc. as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

ERNST & YOUNG LLP
CHARTERED ACCOUNTANTS

MONTREAL, CANADA
FEBRUARY 14, 2003

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31 (IN THOUSANDS OF DOLLARS, EXCEPT PER-SHARE AMOUNTS)	2002	2001
Revenues	**$3,431,650**	$2,326,830
Gross margin	**$ 466,967**	$ 373,417
Administrative, marketing and other expenses	**298,738**	234,347
Interest and capital taxes	**56,985**	67,799
Income before gains, income taxes and amortization of goodwill	**111,244**	71,271
Gain on disposal of a portion of the investment in 407 International Inc. (note 3)	**149,350**	–
Gain on dilution of investment in 407 International Inc. (note 3)	**14,673**	–
Income before income taxes and amortization of goodwill	**275,267**	71,271
Income taxes (note 11)	**72,737**	30,214
Income before amortization of goodwill	**202,530**	41,057
Amortization of goodwill (net of income taxes) (note 1h)	**–**	14,611
Net income	**$ 202,530**	$ 26,446
Earnings per share (note 1o)		
Basic	**$ 4.04**	$ 0.55
Diluted	**$ 3.95**	$ 0.54
Weighted average number of shares – basic (in thousands)	**50,139**	47,914

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN THOUSANDS)	SHARE CAPITAL SHARES	SHARE CAPITAL AMOUNT	CUMULATIVE TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
BALANCE AS AT DECEMBER 31, 2000	45,924	$ 237,737	$ 2,587	$ 117,831	$ 358,155
Net income	–	–	–	26,446	26,446
Dividends	–	–	–	(13,399)	(13,399)
Shares issued in public offering	3,000	66,000	–	–	66,000
Issuance costs for common shares (net of income taxes)	–	–	–	(1,770)	(1,770)
Shares issued under stock option plan	1,280	13,908	–	–	13,908
Shares redeemed and cancelled (note 9d)	(391)	(2,474)	–	(3,902)	(6,376)
BALANCE AS AT DECEMBER 31, 2001	49,813	315,171	2,587	125,206	442,964
Adjustment for change in accounting policy (note 7)	**–**	**–**	**–**	**(25,500)**	**(25,500)**
Net income	**–**	**–**	**–**	**202,530**	**202,530**
Cumulative translation adjustment (note 1c)	**–**	**–**	**300**	**–**	**300**
Dividends	**–**	**–**	**–**	**(17,568)**	**(17,568)**
Shares issued under stock option plan	**866**	**11,719**	**–**	**–**	**11,719**
Shares redeemed and cancelled (note 9d)	**(522)**	**(3,366)**	**–**	**(13,965)**	**(17,331)**
BALANCE AS AT DECEMBER 31, 2002	**50,157**	**$ 323,524**	**$ 2,887**	**$ 270,703**	**$ 597,114**

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31 (IN THOUSANDS OF DOLLARS)	2002	2001
ASSETS		
Current		
Cash and cash equivalents	$ **491,036**	$ 301,934
Short-term investments	**544**	21,303
Accounts receivable	**481,906**	437,360
Contracts in progress and inventories (note 5)	**403,920**	300,174
	1,377,406	1,060,771
Property, plant and equipment (note 6)	**618,609**	752,144
Other assets (note 7)	**557,989**	677,702
	$**2,554,004**	$2,490,617
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued charges	$ **840,947**	$ 570,341
Downpayments on contracts	**218,741**	168,638
Deferred revenues	**93,518**	80,370
	1,153,206	819,349
Long-term debt (note 8)		
Recourse	**104,028**	103,902
Non-recourse	**646,896**	1,071,720
Other liabilities	**52,760**	52,682
	1,956,890	2,047,653
Shareholders' equity	**597,114**	442,964
	$**2,554,004**	$2,490,617

See accompanying notes to consolidated financial statements.

ON BEHALF OF THE BOARD:

JACQUES LAMARRE,
DIRECTOR

EDYTHE A. PARKINSON-MARCOUX,
DIRECTOR

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31 (IN THOUSANDS OF DOLLARS, EXCEPT PER-SHARE AMOUNTS)	2002	2001
OPERATING ACTIVITIES		
Net income	$ 202,530	$ 26,446
Items not involving a movement of cash:		
Gain on disposal of a portion of the investment in 407 International Inc. (net of income taxes) (note 3)	(121,266)	–
Gain on dilution of investment in 407 International Inc. (note 3)	(14,673)	–
Depreciation of property, plant and equipment and amortization of other assets	50,865	50,453
Amortization of goodwill (net of income taxes)	–	14,611
Accrued interest	15,751	22,906
Other	(6,782)	(3,766)
Dividends from equity investments	9,891	3,035
	136,316	113,685
Net change in non-cash working capital items	26,421	(54,674)
	162,737	59,011
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(56,254)	(102,564)
Short-term investments	20,759	(3,616)
Acquisition of businesses and investments (note 3)	(104,984)	(17,583)
Proceeds from disposal of a portion of the investment in 407 International Inc. (note 3)	177,564	–
Other	(10,660)	(3,986)
	26,425	(127,749)
FINANCING ACTIVITIES		
Repayment of long-term debt	(12,040)	(117,614)
Increase in long-term debt	16,133	176,836
Restricted cash	14,788	4,279
Net proceeds from issuance of shares	11,719	78,138
Redemption of shares (note 9d)	(17,331)	(6,376)
Dividends	(17,568)	(13,399)
Other	4,239	10,723
	(60)	132,587
NET INCREASE IN CASH AND CASH EQUIVALENTS	189,102	63,849
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	301,934	238,085
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 491,036	$ 301,934
CASH FLOW PER SHARE (note 1o)		
Basic	$ 2.72	$ 2.37
Diluted	$ 2.66	$ 2.33
CASH PAID FOR INTEREST	$ 45,478	$ 57,813
CASH PAID FOR INCOME TAXES	$ 44,536	$ 36,851

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

(ALL DOLLAR FIGURES IN TABLES ARE EXPRESSED IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) PRINCIPLES OF CONSOLIDATION AND PRESENTATION

The consolidated financial statements of SNC-Lavalin Group Inc. (the "Company"), incorporated under the Canada Business Corporations Act, are prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company, its subsidiaries and its pro rata share of each of the assets, liabilities, revenues and expenses of its joint ventures. "SNC-Lavalin" means, as the context may require, the Company and all or some of its subsidiaries or joint ventures, or the Company or one or more of its subsidiaries or joint ventures. Equity investments include investments in companies subject to significant influence, which are accounted for using the equity method.

SNC-Lavalin owned 16.77% of 407 International Inc., the principal business of which is the ownership of 407 ETR and, through 407 ETR operates, maintains and manages highway 407, an all-electronic toll highway in the Greater Toronto area. In the consolidated financial statements of the Company, "Highway 407" means SNC-Lavalin's proportionate share of the results of 407 International Inc., including consolidation eliminations, and gains on dilution and disposal of a portion of the investment in 407 International Inc.

Given the significant effect of Highway 407 on the Company's consolidated financial statements and to reflect the way the Company views the nature of this investment, the Company provides additional information, in note 2, whereby Highway 407 is accounted for as a single line item as opposed to the line by line pro-rata share of financial results, thereby enabling the readers a greater understanding of the Company's underlying assets, earnings base and financial resources.

B) USE OF ESTIMATES

The preparation of financial statements of the Company in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company has a history of making dependable estimates; however, current estimates may be revised as additional information becomes available. Actual results could differ from these estimates.

C) TRANSLATION OF FOREIGN CURRENCIES

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") revised recommendations with respect to "Foreign Currency Translation". The revised recommendations no longer permit the deferral and amortization of unrealized gains and losses that arise on the translation of long-term foreign currency denominated monetary assets and liabilities. Under the revised recommendations, such gains and losses must be reported in income as they arise. Adopting the revised recommendations had no impact on the Company's financial statements.

For self-sustaining foreign operations, assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date and revenues and expenses are translated at the average rates during the year. Exchange gains or losses on translation of SNC-Lavalin's net equity investment in these operations are included as part of shareholders' equity, under "Cumulative Translation Adjustment".

For integrated foreign operations, monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at the rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at the average monthly exchange rates during the year. SNC-Lavalin enters into forward contracts to hedge exposure to fluctuations in foreign exchange rates. The Company does not enter into forward foreign exchange contracts for speculative purposes. All forward contracts are designated to specific contractual commitments. Any gains and losses on forward foreign exchange contracts related to future transactions are charged to income on a basis that corresponds with the recognition of the related future foreign currency transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) REVENUE RECOGNITION

Revenues are generated from Services, Packages and Concessions activities.

- **Services and Packages**

  Services revenues are generated by providing professional services, which include engineering, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning. Packages revenues, in which SNC-Lavalin also undertakes procurement and/or construction activities, are mainly generated from fixed-price contracts.

  Revenues on both services and packages contracts are derived primarily from cost-plus reimbursable contracts and fixed-price contracts. On cost-plus reimbursable contracts, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. On fixed-price contracts, revenues are recorded on the percentage-of-completion basis. The percentage of completion is determined by dividing the cumulative cost incurred as at the balance sheet date by the total of incurred and anticipated costs for completing a contract.

  The value of goods and services purchased by SNC-Lavalin, when acting as purchasing agent for a client, is not recorded as revenue.

  All known or anticipated losses are provided for in their entirety without regard to the percentage of completion. Estimated revenues on contracts include future revenues from claims when such additional revenues can be reliably established. SNC-Lavalin has numerous contracts that are in various stages of completion. Estimates are required to determine the appropriate anticipated cost and revenue.

- **Concessions**

  SNC-Lavalin's activities in its investments in companies arising from privatization, public-private partnerships, long-term outsourcing and other concession-type arrangements are reported as "Concessions" activities.

  Revenues from Concessions activities are recorded based on units delivered, resources used or services rendered. For contracts related to the supply of ammunition, in the Company's subsidiaries, SNC Technologies Inc. and Expro Technologies Inc., revenues are recorded according to the percentage-of-completion method. Toll revenues, relating to Highway 407, are recorded upon computation of tolls resulting from a customer's utilization of the highway.

E) CASH AND CASH EQUIVALENTS, SHORT-TERM INVESTMENTS

Cash equivalents have been restricted to investments that are readily convertible into a known amount of cash and which have an original maturity of three months or less. Short-term, liquid investments with original maturities of more than three months are included in short-term investments. Short-term investments are valued at the lower of cost and market values.

F) CONTRACTS IN PROGRESS AND INVENTORIES

- **Contracts in progress**

  Contracts in progress relate to revenues recognized, according to the related revenue recognition method, in excess of amounts billed and are recorded at their estimated realizable value.

- **Inventories**

  Inventories relate principally to contracts for the manufacturing of ammunition. For these contracts, work in progress and finished products are recorded at their estimated realizable value. Other inventories are recorded at the lower of average cost and replacement value or net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation is recorded at rates set to charge operations with the cost of depreciable assets over their estimated useful lives, as follows:

- **For property, plant and equipment excluding Highway 407**

  Buildings and surface installations, using the straight-line method over a period of 25 to 40 years or the diminishing balance method at rates varying from 4% to 7%.

  Machinery, using the straight-line method over a period of five years or the diminishing balance method at rates varying from 20% to 25%.

  Office furniture and computer equipment, using the diminishing balance method at rates varying from 20% to 30% or the straight-line method over periods from two to five years.

  Transmission assets, using the straight-line method over periods from 13 to 50 years.

- **For Highway 407 property, plant and equipment**

  In conformity with the new recommendations of the CICA with respect to "Property, Plant and Equipment", effective January 1, 2002, the toll highway is amortized on a usage basis using projected revenues over 70 years to reflect the weighted average useful life of the different components of the highway. In 2001, prior to the release of the new CICA recommendations, the period of amortization for such capital assets was established at 40 years.

  Toll equipment, using the straight-line method over a period of ten years.

H) GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted the new recommendations of the CICA with respect to "Goodwill and Other Intangible Assets". Effective January 1, 2002, goodwill and other intangible assets are no longer amortized, but instead are tested for impairment and, if required, written down and charged to earnings only in the periods in which the recorded values of goodwill and other intangible assets exceed their fair values. In 2001, the new recommendations relating to "Goodwill and Other Intangible Assets" applied only for business combinations initiated after June 30, 2001. Goodwill represents the excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed at the date of acquisition.

The following table discloses a reconciliation of reported net income, earnings per share and diluted earnings per share to the 2001 amounts adjusted for the exclusion of amortization of goodwill, net of related income taxes.

	2002	2001
NET INCOME:		
Net income as reported	$ **202,530**	$ 26,446
Add: amortization of goodwill (net of income taxes)	**–**	14,611
Net income – adjusted	$ **202,530**	$ 41,057
BASIC EARNINGS PER SHARE:		
Basic earnings per share as reported	$ **4.04**	$ 0.55
Add: amortization of goodwill impact (net of income taxes)	**–**	0.30
Basic earnings per share – adjusted	$ **4.04**	$ 0.85
DILUTED EARNINGS PER SHARE:		
Diluted earnings per share as reported	$ **3.95**	$ 0.54
Add: amortization of goodwill impact (net of income taxes)	**–**	0.30
Diluted earnings per share – adjusted	$ **3.95**	$ 0.84

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I) HIGHWAY 407'S CONCESSION RIGHT

In conformity with the new recommendations, related to "Goodwill and Other Intangible Assets", Highway 407's concession right is amortized on a usage basis over its estimated useful life of 99 years to reflect the duration of the Concession and Ground Lease Agreement with the Province of Ontario. In 2001, prior to the release of the new CICA recommendations, the period of amortization for such assets was established at 40 years.

J) DEFERRED FINANCING COSTS

Deferred financing costs, which are included in "Other Assets", are amortized using the straight-line method over the term of the related debt. The amortization of these charges is included as part of interest on long-term debt.

K) INCOME TAXES

The Company uses the liability method of accounting for income taxes, which requires the establishment of future tax assets and liabilities, as measured by enacted or substantially enacted tax rates, for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the financial statements.

L) MARKETING EXPENSES

All costs related to contract proposals are expensed as incurred.

M) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except if the costs are related to the development and setup of new products, processes and systems and satisfy generally recognized conditions, including reasonable assurance that they will be recovered. All development costs, that are capitalized, included in "Other Assets", are amortized when commercial production begins, using the straight-line method over a period of three to five years. Where permanent impairment occurs, such capitalized costs are written off. The unamortized amounts included in "Other Assets" totaled $3,061,000 as at December 31, 2002 (2001: $2,712,000).

N) PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

All accrued obligations for employee future benefits have been determined using the projected benefit method. In valuing post-retirement benefits as well as cost of pension benefits, the Company uses management's best estimate assumptions except for the discount rate, where the Company uses the current market interest rate available at the measurement date. Current service costs are expensed in the year. In accordance with generally accepted accounting principles, the excess of the net actuarial gains or losses over 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees to receive benefits under the plans. For valuing pension plan assets, the Company uses market values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O) EARNINGS AND CASH FLOW PER SHARE

Basic and diluted earnings per share have been determined by dividing the consolidated net income for the year by the basic and diluted weighted average number of common shares, respectively.

Basic and diluted cash flow per share have been determined by dividing the cash flows provided by operating activities before net change in non-cash working capital items by the basic and diluted weighted average number of common shares, respectively.

The diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of issuance, and the proceeds from the exercise of such dilutive options are used to repurchase common shares at the average market price for the period. The weighted average number of common shares used in the calculation of earnings and cash flows per share are:

(IN THOUSANDS)	2002	2001
Weighted average number of shares – basic	**50,139**	47,914
Dilutive effect of stock options	**1,157**	938
Weighted average number of shares – diluted	**51,296**	48,852

P) STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Effective January 1, 2002, the Company adopted the new recommendations of the CICA regarding "Stock-Based Compensation and Other Stock-Based Payments". For stock options granted to employees and directors, the new recommendations provide the choice of using the fair-value based method, thereby recognizing the related compensation expense in the income statement, or disclosing pro-forma net income and pro-forma earnings per share in the notes to the financial statements. In accordance with the new recommendations, the Company elected to continue its current policy of not recording any compensation cost as an expense on the grant of stock options to employees and directors. Pro-forma disclosure is provided in note 9c) as if these awards were accounted for using the fair value method. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

2. HIGHWAY 407 – ADDITIONAL INFORMATION

In 1999, SNC-Lavalin and its partners acquired, through 407 International Inc., the right to operate 407 ETR under a 99-year lease from the Government of Ontario. 407 ETR is the world's first all-electronic open-access toll road. SNC-Lavalin's invested, in 1999, $175 million in the common shares of 407 International Inc., representing a 26.92% equity participation. Effective January 1, 2002, SNC-Lavalin's participation in the common shares of 407 International Inc. was diluted to 22.58% from 26.92% as the holder of 407 International Inc.'s subordinated convertible debenture ("Debenture") entered into an agreement with 407 International Inc. and its shareholders whereby, the holder irrevocably agreed to formally convert its Debenture into common shares of 407 International Inc. on May 6, 2004 or, subject to certain conditions, at an earlier date, resulting in a dilution gain. In March 2002, SNC-Lavalin sold 45 million of its 175 million shares in its investment in 407 International Inc., decreasing SNC-Lavalin's participation in the common shares of 407 International Inc. to 16.77%. In accordance with the recommendations of the CICA, SNC-Lavalin's investment in Highway 407 is currently accounted for using the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro-rata share of each of the assets, liabilities, revenues and expenses of Highway 407.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. HIGHWAY 407 – ADDITIONAL INFORMATION (CONTINUED)

Given the significant effect of Highway 407 on the Company's consolidated financial statements and to reflect the way the Company views the nature of this investment, the Company provides the following additional information whereby Highway 407 is accounted for as a single line item as opposed to the line by line pro-rata share of financial results, thereby enabling the readers a greater understanding of the Company's underlying assets, earnings base and financial resources.

FINANCIAL POSITIONS

AT DECEMBER 31	2002	2001
ASSETS		
Current		
Cash and cash equivalents	$ 479,180	$ 280,283
Short-term investments	544	21,303
Accounts receivable	476,758	398,058
Contracts in progress and inventories (note 5)	403,920	300,174
	1,360,402	999,818
Property, plant and equipment (note 6)	256,475	168,254
Investment in 407 International Inc. (see next page)	57,640	99,827
Other assets (note 7)	233,522	155,189
	$1,908,039	$1,423,088
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued charges	$ 797,534	$ 541,310
Downpayments on contracts	218,741	168,638
Deferred revenues	93,518	80,370
	1,109,793	790,318
Long-term debt (note 8)		
Recourse	104,028	103,902
Non-recourse	50,283	43,820
Other liabilities	46,821	42,084
	1,310,925	980,124
Shareholders' equity	597,114	442,964
	$1,908,039	$1,423,088

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. HIGHWAY 407 – ADDITIONAL INFORMATION (CONTINUED)

The following table provides a reconciliation of SNC-Lavalin's investment in 407 International Inc. from its acquisition in 1999 to December 31:

	2002	2001
Investment cost	$ 175,000	$ 175,000
SNC-Lavalin's proportionate share of cumulative losses, net of consolidation eliminations	(92,031)	(75,173)
Gain on dilution (note 3)	14,673	–
Carrying value of shares sold (note 3)	(28,214)	–
Dividends received	(11,788)	–
BALANCE AT END OF YEAR	$ 57,640	$ 99,827

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31	2002	2001
Revenues	$3,380,852	$2,283,159
Gross margin	$ 436,303	$ 334,944
Administrative, marketing and other expenses	292,176	228,340
Interest and capital taxes	10,990	562
Income before income taxes and amortization of goodwill	133,137	106,042
Income taxes	43,626	32,237
Income before amortization of goodwill	89,511	73,805
Amortization of goodwill (net of income taxes)	–	14,611
Net income, excluding Highway 407	89,511	59,194
Highway 407, net loss excluding gains, net of consolidation eliminations	(16,858)	(32,748)
Net gain on disposal of a portion of the investment in 407 International Inc. (note 3)	115,204	–
Gain on dilution of investment in 407 International Inc.	14,673	–
Net income	$ 202,530	$ 26,446

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. HIGHWAY 407 – ADDITIONAL INFORMATION (CONTINUED)

CASH FLOWS

YEARS ENDED DECEMBER 31	2002	2001
OPERATING ACTIVITIES		
Net income	$ 202,530	$ 26,446
Items not involving a movement of cash:		
Gain on disposal of a portion of the investment in 407 International Inc. (net of income taxes) (note 3)	(121,266)	–
Gain on dilution of investment in 407 International Inc. (note 3)	(14,673)	–
Depreciation of property, plant and equipment and amortization of other assets	42,159	37,509
Amortization of goodwill (net of income taxes)	–	14,611
Highway 407 net loss, net of consolidation eliminations	16,858	32,748
Other	(7,399)	(2,213)
Dividends from equity investments and 407 International Inc.	21,679	3,035
	139,888	112,136
Net change in non-cash working capital items	28,618	(64,068)
	168,506	48,068
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(43,190)	(34,962)
Short-term investments	20,759	(3,616)
Acquisition of businesses and investments (note 3)	(104,984)	(17,583)
Proceeds from disposal of a portion of the investment in 407 International Inc. (note 3)	177,564	–
Other	(4,528)	(3,986)
	45,621	(60,147)
FINANCING ACTIVITIES		
Repayment of long-term debt	(12,007)	(3,142)
Increase in long-term debt	16,133	–
Net proceeds from issuance of shares	11,719	78,138
Redemption of shares	(17,331)	(6,376)
Dividends	(17,568)	(13,399)
Other	3,824	12,145
	(15,230)	67,366
NET INCREASE IN CASH AND CASH EQUIVALENTS	198,897	55,287
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	280,283	224,996
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 479,180	$ 280,283

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. DISPOSAL AND ACQUISITIONS

DISPOSAL

In March 2002, SNC-Lavalin sold 45 million of its 175 million shares in its investment in 407 International Inc. resulting in a net gain of $121.3 million, which is calculated as follows:

Total cash consideration	$ 177,564
Carrying value of shares sold	(28,214)
Gain before income taxes	149,350
Income taxes	(28,084)
Net gain on disposal of a portion of the investment in 407 International Inc.	$ 121,266
Allocated as follows:	
Excluding Highway 407	$ 6,062
From Highway 407	115,204
	$ 121,266

An amount of $6.1 million was allocated to "Excluding Highway 407" as compensation for transaction and structuring services rendered by SNC-Lavalin Investment and SNC-Lavalin Capital.

Prior to the above-mentioned disposal, SNC-Lavalin's participation in the common shares of 407 International Inc. was diluted to 22.58% from 26.92%. Effective January 1, 2002, the holder of 407 International Inc.'s subordinated convertible debenture ("Debenture") entered into an agreement with 407 International Inc. and its shareholders whereby the holder irrevocably agreed to formally convert its Debenture into common shares of 407 International Inc. on May 6, 2004 or, subject to certain conditions, at an earlier date. This undertaking to convert into common shares is considered to be an immediate conversion of the Debenture, and effective January 1, 2002, has been accounted for as such from that date, resulting in a gain on dilution of $14.7 million.

SNC-Lavalin's proportionate share of Highway 407, following both the partial disposal and the dilution is 16.77%.

ACQUISITION OF BUSINESSES AND INVESTMENTS

In May 2002, SNC-Lavalin expanded its thermal power business by hiring about 5,000 employees and signing new engineering, procurement and construction ("EPC") contracts, totaling approximately $1.0 billion, to complete construction of gas-fired thermal power plants in the United States. SNC-Lavalin also concluded, in September 2002, the acquisition of certain assets relating to the above-mentioned contracts, for a total cash consideration of approximately $1.9 million.

During 2002, SNC-Lavalin acquired other businesses for a total cash consideration of $7.3 million (2001: $17.6 million) of which $5.6 million (2001: $10.6 million) was allocated to goodwill.

The above-mentioned acquisitions have been accounted for using the purchase method and consolidated from the effective date of acquisition.

On April 29, 2002, AltaLink Consortium, in which SNC-Lavalin holds a 50% participation, acquired approximately 12,000 km of electrical transmission lines and over 250 substations in Alberta, which are rate regulated by The Alberta Energy & Utilities Board. SNC-Lavalin accounts for its investment in the AltaLink Consortium using the equity method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. DISPOSAL AND ACQUISITIONS (CONTINUED)

Also in 2002, SNC-Lavalin acquired an indirect interest of 15.5% in Malta International Airport p.l.c. ("MIA"), which is accounted for using the equity method. Under a 65-year concession agreement, MIA acquired the right to own and manage the Malta International Airport.

The above businesses and investments were acquired for a total cash consideration of $105.0 million as described below.

	2002	2001
Property, plant and equipment	$ **2,980**	$ 8,851
Goodwill	**5,592**	10,558
Other assets	**9,723**	12,089
Liabilities assumed	**(9,082)**	(13,915)
Acquisition of businesses	**9,213**	17,583
Acquisition of equity investments	**95,771**	–
Total cash consideration	$ **104,984**	$ 17,583

4. JOINT VENTURE ACTIVITIES

SNC-Lavalin carries out part of its activities through joint ventures. SNC-Lavalin's pro-rata share of the assets, liabilities, net income and cash flows, of such joint ventures is summarized by the following financial information:

	2002	2001
BALANCE SHEETS		
Current assets	$ **161,230**	$ 247,359
Long-term assets	**788,538**	1,138,397
	$ **949,768**	$1,385,756
Current liabilities	$ **263,152**	$ 224,009
Long-term liabilities	**611,945**	1,045,612
Pro-rata share of net assets of joint ventures	**74,671**	116,135
	$ **949,768**	$1,385,756
STATEMENTS OF INCOME		
Revenues	$ **442,327**	$ 549,492
Expenses	**435,930**	549,297
Pro-rata share of net income of joint ventures	$ **6,397**	$ 195
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):		
Operating activities	$ **6,410**	$ 109,036
Investing activities	**(20,470)**	(72,419)
Financing activities	**(6,566)**	17,159
Pro-rata share of changes in cash and cash equivalents of joint ventures	$ **(20,626)**	$ 53,776

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. CONTRACTS IN PROGRESS AND INVENTORIES

	2002	2001
Contracts in progress	$ 330,943	$ 256,168
Inventories	72,977	44,006
	$ 403,920	$ 300,174

6. PROPERTY, PLANT AND EQUIPMENT

	2002		2001	
	COST	ACCUMULATED DEPRECIATION	COST	ACCUMULATED DEPRECIATION
EXCLUDING HIGHWAY 407				
Buildings and surface installations	$ 122,978	$ 34,032	$ 117,465	$ 30,060
Machinery	96,788	68,577	86,144	63,351
Office furniture and computer equipment	231,204	183,609	204,620	164,827
Transmission assets*	76,404	1,017	5,566	–
Other	34,962	18,626	29,144	16,447
	562,336	305,861	442,939	274,685
HIGHWAY 407				
Toll highway	331,671	6,843	531,373	8,631
Toll equipment	40,044	10,076	62,086	8,931
Other	9,721	2,383	11,245	3,252
	381,436	19,302	604,704	20,814
	943,772	$ 325,163	1,047,643	$ 295,499
Accumulated depreciation	325,163		295,499	
NET BOOK VALUE	$ 618,609		$ 752,144	

* In March 2001, SNC-Lavalin took a 50%-equity participation in Murraylink Transmission Company PTY Ltd. in order to own an interconnector (transmission assets) between the electricity transmission grids of the Australian states of Victoria and South Australia. The investment is accounted for using the proportionate consolidation method. The construction of the Murraylink electricity transmission line was substantially completed and commenced commercial operation in the beginning of the fourth quarter 2002. SNC-Lavalin provided a guarantee for the payment of its 50% share in the contract for the construction of the transmission line. SNC-Lavalin Inc.'s share of the total guarantee is approximately $65,000,000 (maximum of AUD 74,000,000). Upon commencement of the commercial operations of this concession, SNC-Lavalin began recording its proportionate share of the transmission long-term assets and the total related short-term liability of the concession in its consolidated financial statements, as long-term financing has not yet been finalized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. OTHER ASSETS

	2002	2001
EXCLUDING HIGHWAY 407		
Goodwill *	$ **66,083**	$ 85,991
Equity investments	**141,204**	44,793
Other	**26,235**	24,405
	233,522	155,189
HIGHWAY 407		
Concession right	**276,408**	444,756
Restricted cash and deferred financing costs	**48,059**	77,757
	324,467	522,513
	$ **557,989**	$ 677,702

* **Goodwill**

In conformity with the new CICA recommendations (note 1h), the Company has completed the transitional impairment test of the existing goodwill as at December 31, 2001. The transition test indicated no impairment of goodwill except for the facilities and operations management reporting unit. The facilities and operations management reporting unit generates earnings based mostly on long-term contracts which have uncertainty of contract renewals. Factoring such risk into the discounted cash flow analysis, a transitional goodwill impairment of $25.5 million for this reporting unit was identified. In accordance with the new standards, as required by the transitional provisions, such goodwill impairment was charged to opening retained earnings as at January 1, 2002.

In addition to the transitional goodwill impairment tests, the Company, in conformity with the new recommendations, performed its annual goodwill impairment tests in the fourth quarter of 2002. These goodwill impairment tests indicated no further impairment of goodwill.

The following table discloses a reconciliation of the carrying amount of the Company's goodwill:

	FACILITIES AND OPERATIONS MANAGEMENT UNIT	OTHER REPORTING UNITS	TOTAL
Balance as at December 31, 2000	$ 51,144	$ 39,263	$ 90,407
Goodwill acquired during the year	1,530	9,028	10,558
Goodwill amortization	(6,756)	(8,218)	(14,974)
Balance as at December 31, 2001	45,918	40,073	85,991
Transitional impairment losses	**(25,500)**	–	**(25,500)**
Goodwill acquired during the year	–	**5,592**	**5,592**
Balance as at December 31, 2002	$ **20,418**	$ **45,665**	$ **66,083**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. LONG-TERM DEBT

	2002	2001
RECOURSE (TO THE GENERAL CREDIT OF THE COMPANY):		
Debentures, 7.70%, due in 2010	$ 104,028	$ 103,902
NON-RECOURSE (SECURED ONLY BY SPECIFIC ASSETS):		
HIGHWAY 407		
Senior bonds, 5.29% to 6.90%, due in 2006 to 2039	480,261	745,995
Junior bonds, 7.00%, due in 2010, extendible to 2040 upon the initial maturity term, at an increased annual rate of 7.125%	27,648	44,369
Subordinated bonds, 9.00%, due in 2007	50,393	80,906
Subordinated term credit facility, 4.50% and 6.40%, due in 2003 and 2004	71,276	114,377
Subordinated convertible debenture (note 3)	–	41,614
Other	2,445	679
COMPANY HEADQUARTERS		
9.39%, due in 2008, secured by a first ranking hypothec on the building, including a hypothec upon all rents payable in respect of such property. A balance of capital repayment of $25.4 million is due at maturity.	34,791	36,143
OTHER	18,906	10,656
	685,720	1,074,739
LESS: PORTION DUE WITHIN ONE YEAR FOR NON-RECOURSE DEBT	38,824	3,019
NON-RECOURSE LONG-TERM DEBT	646,896	1,071,720
TOTAL LONG-TERM DEBT	$ 750,924	$1,175,622

RECOURSE

Revolving credit facilities

The Company has access to committed long-term revolving lines of credit with banks, upon which it may borrow at variable rates not exceeding the prime rate, up to a maximum of $457,500,000. As at December 31, 2002, $96,362,000 of these credit lines remained unused, the difference of $361,138,000 was exclusively used for the issuance of letters of credit. Also, the Company has other lines of credit specifically for letters of credit. All the above-mentioned lines of credit are unsecured and subject to negative pledge clauses.

Debentures

The face value of the debentures totaling $105,000,000 are repayable at maturity. These debentures are unsecured and subject to negative pledge clauses.

NON-RECOURSE

Highway 407

The senior bonds, junior bonds, subordinated bonds and subordinated term credit facility are secured under a Master Trust Indenture (the "Indenture"), which establishes common security and a set of common covenants given by 407 International Inc. for the benefit of all its lenders. The security comprises substantially all of the assets of both 407 International Inc. and of its wholly-owned subsidiaries, which primarily includes 407 ETR Concession Company Limited, including an assignment of future revenues. Pursuant to the Indenture, 407 International Inc. established cash reserves in accordance with the terms and conditions of senior and junior bonds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. LONG-TERM DEBT (CONTINUED)

In addition, SNC-Lavalin has pledged, as security for obligations under the subordinated bonds and subordinated term credit facility, its interest in shares of 407 International Inc. under a Master Security Agreement. This security may be partially released after May 5, 2004, upon meeting certain conditions.

LONG-TERM DEBT IS DUE AS FOLLOWS:

	2003	2004	2005	2006	2007	THEREAFTER
Excluding Highway 407	$ 3,414	$ 3,709	$ 3,665	$ 3,185	$ 3,202	$140,550
From Highway 407	35,410	37,327	1,321	68,180	124,209	365,576
	$ 38,824	$ 41,036	$ 4,986	$ 71,365	$127,411	$506,126

9. SHARE CAPITAL

A) AUTHORIZED

- **Unlimited number of common shares**
- **Unlimited number of first preferred shares and second preferred shares**
  The Board of Directors is authorized to issue such preferred shares in one or more series and to establish the number of shares in each series and the conditions attaching thereto, prior to their issue.

B) STOCK OPTION PLANS

In 1995, the Company adopted a stock option plan (1995 Plan) under which it was authorized to grant options to non-employee directors and to certain key employees of SNC-Lavalin for the purchase of shares up to the limit permitted by law. Options may only be exercised two years after the date of the grant for a period not exceeding five years ("the exercise period"). Options are exercisable at the market value of shares on the date of the grant. Options terminate upon cessation of employment or resignation, except in cases of death or Company-approved retirement.

In 1997, the Company amended the 1995 Plan, notably by reducing the exercise period, for options granted from March 1997, whereby options may only be exercised two years after the date of the grant for a period not exceeding four years (previously five years).

In 2001, the Company adopted a new stock option plan (2001 Plan) which is subject to the same terms and conditions as the amended 1995 Plan in respect of eligibility, exercise period, exercise price and termination of employment. Since the adoption of the 2001 Plan, no new options may be granted under the 1995 Plan, and unexercised options previously granted continue to be governed by its terms and conditions.

The number of options varied as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)
Options outstanding, January 1, 2001	3,242,100	$ 12.06
Granted	1,054,500	$ 21.66
Exercised	(1,280,169)	$ 10.87
Cancelled	(85,625)	$ 14.23
Options outstanding, December 31, 2001	2,930,806	$ 15.97
Granted	**24,250**	$ **34.01**
Exercised	**(865,954)**	$ **13.53**
Cancelled	**(67,250)**	$ **15.17**
Options outstanding, December 31,2002	**2,021,852**	$ **17.25**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. SHARE CAPITAL (CONTINUED)

The table below summarizes information regarding the stock options outstanding and exercisable, under the terms of the plans, as at December 31, 2002.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING OPTION TERM (MONTHS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$ 10.06 to $ 11.30	515,652	10.84	$ 11.11	515,652	$ 11.11
$ 11.31 to $ 16.93	467,950	29.97	$ 13.35	462,950	$ 13.33
$ 16.94 to $ 25.41	987,000	56.00	$ 21.60	–	$ –
$ 25.42 to $ 36.55	51,250	64.90	$ 30.83	–	$ –
	2,021,852	38.68	$ 17.25	978,602	$ 12.16

C) PRO-FORMA STOCK-BASED COMPENSATION COST

In conformity with the new recommendations regarding "Stock-Based Compensation and Other Stock-Based Payments", the Company elected not to record any compensation expense from stock options granted to employees and directors. If compensation cost had been recognized using the fair value based method at the grant date for options granted on or after January 1, 2002, the date of adoption of the new recommendations, the Company's pro-forma net income and earnings per share would have been as indicated below:

	2002
NET INCOME:	
as reported	$ 202,530
pro forma	$ 202,505
EARNINGS PER SHARE:	
Basic:	
as reported	$ 4.04
pro forma	$ 4.04
Diluted:	
as reported	$ 3.95
pro forma	$ 3.95

The fair value of each stock option granted was determined on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2002
Risk-free interest rate	3.99%
Volatility factor of future expected market price	28.55%
Expected life of the options	4 years
Expected dividend yield	1.0%

During 2002, the Company granted 24,250 stock options to employees and directors with a weighted average fair value of $8.88 per stock option.

For the pro-forma presentation, the estimated fair value of the options is being amortized on a straight-line basis over the vesting period, which is two years from the date the stock options were granted.

D) REDEMPTION OF SHARES

In May 2002, the Board of Directors authorized the renewal of a normal course issuer bid to purchase, for cancellation, on the open market, up to a prescribed maximum number of common shares within a one-year period. This program requires annual approval by the Board of Directors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. SHARE CAPITAL (CONTINUED)

The redemption of shares in 2002 and 2001 were as follows:

	2002	2001
Redeemed and cancelled		
Portion allocated to share capital	$ 3,366	$ 2,474
Portion allocated to retained earnings	13,965	3,902
	$ 17,331	$ 6,376
Number of shares redeemed and cancelled	521,900	391,000
Average redemption price per share	$ 33.21	$ 16.31

10. INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF INCOME

The following are included in the consolidated statements of income:

	2002	2001
EXCLUDING HIGHWAY 407		
Depreciation of property, plant and equipment and amortization of other assets	$ 42,159	$ 37,509
Interest revenues	$ (9,361)	$ (10,380)
Interest on long-term debt	$ 13,845	$ 14,906
Income from equity investments	$ 11,350	$ 5,259
HIGHWAY 407		
Depreciation of property, plant and equipment	$ 8,706	$ 12,944
Interest revenues	$ (1,716)	$ (5,412)
Interest on long-term debt	$ 46,943	$ 58,560

11. INCOME TAXES

Temporary differences and tax loss carry forwards which give rise to future income tax assets and liabilities, as at December 31, are as follows:

	2002	2001
EXCLUDING HIGHWAY 407		
Provision and reserves	$ 22,689	$ 18,618
Tax loss carry forwards	8,569	14,170
Contracts in progress and inventories	(25,758)	(29,273)
Future employee benefits	10,174	8,352
Property, plant and equipment	(6,794)	(8,544)
Book value in partnership in excess of tax basis	(6,456)	–
Other	3,490	2,855
	5,914	6,178
HIGHWAY 407		
Tax loss carry forwards	11,074	19,295
Deferred gains	1,789	3,192
Property, plant and equipment	(10,326)	(20,261)
Other	(2,537)	(2,226)
	–	–
FUTURE INCOME TAX ASSET, NET	$ 5,914	$ 6,178
RECORDED AS FOLLOWS:		
FUTURE INCOME TAX ASSET (LIABILITY) – CURRENT	$ (1,859)	$ 1,270
FUTURE INCOME TAX ASSET – LONG-TERM	$ 7,773	$ 4,908

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. INCOME TAXES (CONTINUED)

The effective income tax rate in the Company's consolidated statements of income differs from the statutory Canadian tax rates mainly as a result of the following:

	2002		2001	
	AMOUNT	%	AMOUNT	%
EXCLUDING HIGHWAY 407				
Income tax at statutory Canadian rates	$ 48,951	36.8	$ 41,314	39.0
Increase (decrease) resulting from:				
Non-deductible expenses	2,446	1.8	1,933	1.8
Net losses in foreign jurisdictions not affected by tax	2,083	1.6	1,720	1.6
Effect of foreign tax rates	(2,469)	(1.9)	(1,312)	(1.2)
Manufacturing and processing deduction	(685)	(0.5)	(904)	(0.9)
Other	(6,700)	(5.0)	(10,514)	(9.9)
	43,626	32.8	32,237	30.4
HIGHWAY 407				
Income tax expense (benefit) at statutory Canadian rates	51,929	36.5	(10,196)	(41.8)
Increase (decrease) resulting from:				
Tax effect of unused tax losses	6,689	4.7	10,196	41.8
Non taxable amount from dilution and disposal of a portion of the investment in 407 International Inc.	(30,533)	(21.5)	–	–
Other	1,026	0.7	(2,023)	(5.8)
	29,111	20.4	(2,023)	(5.8)
Total income tax expense	$ 72,737	26.4	$ 30,214	42.4
Current income tax expense	$ 75,094		$ 26,594	
Future income tax expense (benefit)	(2,357)		3,620	
	$ 72,737		$ 30,214	

As at December 31, 2002, the Company's share of Highway 407's unused non-capital tax loss carryovers was $ 26,645,000 available to offset its taxable income of the next five years and $ 13,015,000 available to offset its taxable income of the next six years. A future income tax net asset position related to Highway 407 will be recorded upon realization of certain conditions.

12. FINANCIAL INSTRUMENTS

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of SNC-Lavalin's financial instruments are as follows:

Short-term financial assets and liabilities

Cash equivalents and short-term investments consist principally of high-grade financial instruments. Due to the short duration of such investments, their carrying amount approximates their fair value. For other short-term financial assets and liabilities, the carrying amounts are a reasonable estimate of the market values of these items due to their short-term nature.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS (CONTINUED)

Long-term debt

The carrying amount and estimated fair value of the long-term debt as at December 31, 2002, was $789,748,000 (2001: $1,178,641,000) and $858,446,000 (2001: $1,228,695,000), respectively. These amounts include SNC-Lavalin's proportionate share of Highway 407's carrying amount and fair value of its long-term debt of $632,023,000 (2001: $1,027,940,000) and $688,216,000 (2001: $1,072,271,000), respectively. The fair value was determined using public quotations or the discounted cash flow method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin for debt with the same terms and conditions.

Letters of credit

Under certain circumstances, SNC-Lavalin provides letters of credit as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual holdbacks and bid bonds. Certain guarantees decrease in relation to the percentage of completion of projects. As at December 31, 2002, SNC-Lavalin had outstanding letters of credit of $703,240,000 (2001: $281,012,000).

Forward foreign exchange contracts

SNC-Lavalin enters into forward foreign exchange contracts with banks to hedge foreign currency denominated assets and liabilities and foreign currency transactions against foreign currency fluctuations. The maturity dates of the existing forward foreign exchange contracts do not exceed four years.

Forward foreign exchange contracts contain an inherent credit risk relating to default on obligations by the counterpart. SNC-Lavalin reduces this credit risk by entering into foreign exchange contracts with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligation under the contracts.

The fair value of forward foreign exchange contracts generally reflects the estimated amounts SNC-Lavalin would receive on settlement of favourable contracts, or be required to pay in order to terminate unfavourable outstanding contracts as at the balance sheet date. The fair values are estimated by obtaining quotes from financial institutions. The fair values as at December 31, if settlement were to occur, would be as follows:

	2002	2001
Favourable forward foreign exchange contracts	$ **2,351**	$ 1,008
Unfavourable forward foreign exchange contracts	**(12,989)**	(5,661)
	$ **(10,638)**	$ (4,653)

Consistent with its policy not to speculate on foreign currency positions, SNC-Lavalin does not usually incur favourable and unfavourable settlement variances given that the forward foreign exchange contracts normally maintain their initial anticipated hedging relationships up to maturity.

B) CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk with respect to accounts receivable and contracts in progress are limited due to the large number of clients comprising SNC-Lavalin's client base, and their dispersion across different business and geographic areas.

13. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

SNC-Lavalin offers a Group Registered Retirement Savings Plan combined with a Deferred Profit Sharing Plan for which SNC-Lavalin contributions are recorded as expenses in the year in which they are incurred (2002: $14,649,000; 2001: $10,944,000), as well as Defined Benefit Pension Plans which provide pension benefits based on length of service and final pensionable earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The following table sets forth the change in benefit obligation, plan assets and funded status of SNC-Lavalin's defined benefit pension plans:

	2002	2001
CHANGE IN PENSION BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 115,750	$ 103,307
Plan amendments	–	5,313
Current service cost	3,684	3,098
Interest cost	7,564	7,245
Benefits paid	(8,618)	(9,786)
Actuarial losses	11,247	6,380
Other	170	193
Benefit obligation at end of year	$ 129,797	$ 115,750
CHANGE IN PLAN ASSETS		
Fair value at beginning of year	$ 104,665	$ 107,972
Actual return on plan assets	3,550	3,821
Benefits paid	(8,618)	(9,786)
Other	2,926	2,657
Fair value at end of year	$ 102,523	$ 104,664
FUNDED STATUS		
Funded status – plan deficit	$ (27,274)	$ (11,086)
Unamortized net actuarial loss	15,911	1,008
Unamortized past service cost	5,458	6,408
Accrued benefit liability*	$ (5,905)	$ (3,670)

* The accrued benefit liability is reflected in the consolidated balance sheet under "Other Liabilities".

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued benefit obligation:

	2002	2001
Discount rate	6.25%	6.50%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	3.25%	3.25%

SNC-Lavalin's net defined benefit pension plans expense is as follows:

	2002	2001
Current service cost	$ 3,684	$ 3,098
Interest cost	7,564	7,245
Expected return on plan assets	(7,207)	(7,468)
Other	950	243
Net benefit plan expense	$ 4,991	$ 3,118

As at December 31, 2002, the obligation for other post-retirement benefits amounted to $15,042,000 (2001: $13,237,000) and is reflected on the consolidated balance sheet under "Other Liabilities".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. CONTINGENCIES

The Company and certain of its subsidiaries have been named as defendants along with other parties in a number of class action lawsuits and other actions filed in Canada and the United States by or on behalf of shareholders of Bre-X Minerals Ltd. and Bresea Resources Ltd. seeking to recover damages allegedly sustained by them as a result of the Bre-X affair. The complaints with respect to these actions generally allege that the Company and/or its subsidiaries were negligent, negligently or fraudulently misrepresented or failed to disclose information relating to Bre-X's Busang gold project, and violated US securities laws. The Company denies these allegations and is vigorously contesting these lawsuits. These lawsuits remain at an early stage, and as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of these lawsuits or to estimate the loss, if any, which may result. However, management believes that the Company's subsidiaries have acted professionally and appropriately at all times in carrying out the work which was performed in connection with Bre-X's Busang project and, after having consulted with legal counsel, believes that the Company and its subsidiaries have strong grounds to contest these claims. The Company's insurers have been advised of these claims and are cooperating with the Company in the defense of these lawsuits subject to policy deductibles, limits, and terms and conditions.

In the normal conduct of operations, there are other pending claims by and against SNC-Lavalin. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these other litigations will not materially affect the Company's consolidated financial position or results of operations.

15. COMMITMENTS

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases amount to $88,405,000. The annual minimum lease payments are as follows: 2003 – $20,437,000; 2004 – $16,010,000; 2005 – $13,978,000; 2006 – $12,340,000; 2007 – $10,790,000 and thereafter – $14,850,000.

16. SEGMENT DISCLOSURES

The Company's operating segments are grouped by sectors of activities, described as follows:

- Power segment is engaged in hydroelectric, nuclear and thermal power generation, transmission and distribution projects, as well as in energy control systems.
- Chemicals and Petroleum segment is comprised of projects in the oil and gas sector, both upstream and downstream as well as in chemicals, biochemicals, petrochemicals and fertilizers.
- Infrastructure segment is engaged in a full range of activities in infrastructure projects, including airports, buildings, rail-based rapid transit systems, roads, systems implementation, water treatment and distribution, water-well drilling, as well as general engineering and environment.
- Mining and Metallurgy segment provides a full range of services for the treatment of ores and recovery of minerals and metals. This segment also includes aluminum industry projects.
- Facilities and Operations Management segment is engaged in a full range of activities in facility, property and infrastructure management, including project management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENT DISCLOSURES (CONTINUED)

- Defence segment mainly includes the manufacturing of ammunition, including the related propellants, for the military and paramilitary markets.
- Investments segment represents SNC-Lavalin's participation in investments such as AltaLink L.P., Murraylink Transmission Company PTY Ltd., Malta International Airport p.l.c., West End Dam Associates, Gazmont and Southern Electric Power Company Limited.
- Highway 407 segment represents SNC-Lavalin's proportionate share of 407 International Inc. results, net of consolidation eliminations, including gains on dilution and disposal. The principal business of 407 International Inc. is the ownership of 407 ETR, and through 407 ETR, the operation, maintenance and management of highway 407 in the greater Toronto area.
- "All Other" segment combines activities of several sectors, pharmaceutical, biotechnology, agrifood, pulp and paper, telecommunications as well as other industrial plants.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies (note 1) except for imputed interest calculated on non-cash working capital position. The Company evaluates segment performance, except for Highway 407 and Investments segments, using operating income net of imputed interest which is allocated monthly to the segments at a rate of 10% per annum resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa. Corporate general and administrative costs are allocated based on the gross margin of each segment. Corporate income taxes are not allocated to segments.

The Company evaluates the Investments segment performance using SNC-Lavalin's share of the net results of its investments based on their respective financial statements using Canadian generally accepted accounting principles.

Highway 407 segment performance is reported using net income (loss), net of consolidation eliminations. In 2001, Highway 407 consolidation eliminations included $8.8 million of imputed interest expense, with a corresponding offsetting interest revenue amount included in "Interest and Capital Taxes" in "Excluding Highway 407" results, whereas, in 2002, no imputed interest was charged to Highway 407 due to the recovery of SNC-Lavalin's original investment. In 2002, in addition to consolidated eliminations, Highway 407 results included a gain on dilution of $14.7 million as well as a net gain on disposal of a portion of the Highway 407 investment of $121.3 million (note 3) less $6.1 million, representing compensation for transaction and structuring services rendered by SNC-Lavalin Investment and SNC-Lavalin Capital for which an offsetting positive contribution was included in "Excluding Highway 407" results.

Revenues by category reflect SNC-Lavalin's activities in Services, Packages and Concessions.

Revenues by geographical segment have been allocated according to project location.

SNC-Lavalin has numerous clients. In any one year, a given client may represent a material portion of the Company's consolidated revenues due to the size of a particular project and the progress accomplished on such project.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENT DISCLOSURES (CONTINUED)

	2002		2001	
YEARS ENDED DECEMBER 31	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME (LOSS)
EXCLUDING HIGHWAY 407				
Power	$1,077,354	$ 33,499	$ 303,182	$ 15,602
Chemicals and Petroleum	631,716	32,384	420,661	32,505
Infrastructure	575,156	22,756	480,177	27,550
Mining and Metallurgy	168,887	13,722	143,156	7,362
Facilities and Operations Management	526,993	11,832	558,315	12,582
Defence	277,418	16,311	211,355	12,427
Investments	13,794	7,699	5,723	1,776
All other	109,534	6,895	160,590	(1,390)
	$3,380,852	145,098	$2,283,159	108,414
Reversal of total imputed interest revenue included in segment operating income		(971)		(1,810)
Income before interest, taxes and amortization of goodwill		144,127		106,604
Interest and capital taxes		(10,990)		(562)
Income before income taxes and amortization of goodwill		133,137		106,042
Income taxes		(43,626)		(32,237)
Income before amortization of goodwill		89,511		73,805
Amortization of goodwill (net of income taxes)		–		(14,611)
Net income, excluding Highway 407		89,511		59,194
HIGHWAY 407, NET INCOME (LOSS)		113,019		(32,748)
NET INCOME		$ 202,530		$ 26,446

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENT DISCLOSURES (CONTINUED)

Details of Highway 407 results for the years ended December 31, are as follows:

	2002	2001
SNC-LAVALIN'S PROPORTIONATE SHARE*		
Revenues (concessions)	$ 55,934	$ 65,706
Gross margin, after deducting $8,706 (2001: $12,944) of depreciation	$ 35,176	$ 39,294
Administrative, marketing and other expenses	(6,501)	(5,185)
Interest and capital tax	(45,995)	(58,487)
Loss before income taxes	(17,320)	(24,378)
Income taxes	(1,017)	(1,615)
Net loss, before consolidation eliminations and gains on disposal and dilution	(18,337)	(25,993)
Net gain on disposal of a portion of the investment in 407 International Inc. (note 3)	115,204	–
Gain on dilution of investment in 407 International Inc. (note 3)	14,673	–
Consolidation eliminations	1,479	(6,755)
Net income (loss), net of consolidation eliminations, and gains on disposal and dilution	$ 113,019	$ (32,748)

* The 2001 figures were calculated using a 26.92% participation in 407 International Inc., whereas the 2002 results of Highway 407 were calculated using a 22.58% participation from January 1 to March 31, and 16.77% thereafter (refer to note 3).

AT DECEMBER 31	2002	2001
Excluding Highway 407		
Segment non-cash working capital position		
Power	$ (49,917)	$ 8,220
Chemicals and Petroleum	(41,199)	(35,323)
Infrastructure	(3,909)	6,342
Mining and Metallurgy	8,132	(469)
Facilities and Operations Management	(12,551)	(16,457)
Defence	85,529	44,349
All Other	3,140	(11,287)
Total segment non-cash working capital position – net liabilities	(10,775)	(4,625)
Current liabilities included in segment non-cash working capital position	891,453	702,857
Cash and cash equivalents, short-term investments	479,724	301,586
Property, plant and equipment and other long-term assets	489,997	323,443
Total assets excluding Highway 407	1,850,399	1,323,261
PROPORTIONATE SHARE OF HIGHWAY 407 TOTAL ASSETS	703,605	1,167,356
TOTAL ASSETS	$2,554,004	$2,490,617

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENT DISCLOSURES (CONTINUED)

	2002	2001
REVENUES BY CATEGORY		
YEARS ENDED DECEMBER 31		
Services	**$ 777,221**	$ 583,168
Packages	**1,769,305**	863,243
Concessions	**885,124**	880,419
	$3,431,650	$2,326,830
REVENUES BY GEOGRAPHIC SEGMENT		
YEARS ENDED DECEMBER 31		
Canada	**$1,622,282**	$1,549,651
United States	**949,379**	102,123
Africa	**283,387**	117,100
Asia	**187,311**	244,486
Europe	**142,784**	84,993
Latin America	**119,643**	130,326
Other	**126,864**	98,151
	$3,431,650	$2,326,830
PROPERTY, PLANT, EQUIPMENT AND GOODWILL		
AT DECEMBER 31		
Canada		
Excluding Highway 407	**$ 228,733**	$ 246,747
From Highway 407	**362,134**	583,890
Outside Canada	**93,825**	7,498
	$ 684,692	$ 838,135

17. COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to be comparable with the 2002 presentation.

QUARTERLY DATA

(IN THOUSANDS OF DOLLARS, EXCEPT PER-SHARE AMOUNTS)	2002			
	FIRST	SECOND	THIRD	FOURTH
Revenues	627,161	815,305	1,002,195	986,989
Net income (loss)				
Excluding Highway 407	19,401	23,673	22,875	23,562
From Highway 407	124,648	(3,291)	(2,723)	(5,615)
	144,049	20,382	20,152	17,947
Basic earnings per share				
Excluding Highway 407	0.39	0.47	0.46	0.47
From Highway 407	2.49	(0.06)	(0.06)	(0.11)
	2.88	0.41	0.40	0.36
Basic cash flow per share				
Excluding Highway 407	0.59	0.72	0.60	0.88
From Highway 407	(0.06)	–	0.02	(0.03)
	0.53	0.72	0.62	0.85
Dividend declared per share	0.09	0.09	0.09	0.10

	2001			
	FIRST	SECOND	THIRD	FOURTH
Revenues	564,876	532,005	575,237	654,712
Net income (loss)				
Excluding Highway 407	12,669	16,995	15,796	13,734
From Highway 407	(6,679)	(6,297)	(8,911)	(10,861)
	5,990	10,698	6,885	2,873
Basic earnings per share				
Excluding Highway 407	0.28	0.36	0.32	0.28
From Highway 407	(0.15)	(0.13)	(0.18)	(0.23)
	0.13	0.23	0.14	0.05
Basic cash flow per share				
Excluding Highway 407	0.63	0.61	0.50	0.60
From Highway 407	(0.02)	0.01	(0.01)	0.05
	0.61	0.62	0.49	0.65
Dividend declared per share	0.07	0.07	0.07	0.08

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Mississauga ON L5K 2P8
Telephone (905) 829-8808
Fax (905) 829-8809

Nexacor Realty Management Inc.
Suite 600
300 The East Mall Street
Toronto ON M9B 6B7
Telephone (416) 207-3200
Fax (416) 207-3202

OTTAWA

SNC-Lavalin Defence Programs Inc.
Suite 1100
170 Laurier Avenue West
Ottawa ON K1P 5V5
Telephone (613) 567-7004
Fax (613) 567-7022

SNC-Lavalin International Inc.
Suite 1100
170 Laurier Avenue West
Ottawa ON K1P 5V5
Telephone (613) 567-8517
Fax (613) 567-5509

SARNIA

SNC-Lavalin Engineers & Constructors Inc.
Suite 301
265 North Front Street
Sarnia ON N7T 7X1
Telephone (519) 336-0201
Fax (519) 336-0209

WOODBRIDGE

407 International Inc.
6300 Steeles Avenue West
Woodbridge ON L4H 1J1
Telephone (905) 264-5242
Fax (905) 265-4071

ATLANTIC CANADA

ST. JOHN'S

BAE-Newplan Group Limited
1133 Topsail Road
Mount Pearl NL A1N 5G2
Telephone (709) 368-0118
Fax (709) 368-3541

HALIFAX

SNC-Lavalin Inc.
40 Fielding Avenue
Dartmouth NS B3B 1E4
Telephone (902) 468-6230
Fax (902) 468-7864

SNC-Lavalin Inc.
Park Lane Terraces
Suite 200
5657 Spring Garden Road
Halifax NS B3J 3R4
Telephone (902) 492-4544
Fax (902) 492-4540

FREDERICTON

SNC-Lavalin Inc.
500 Beaverbrook Court
Fredericton NB E3B 5X4
Telephone (506) 459-2645
Fax (506) 444-9419

ALBERTA

CALGARY

SNC-Lavalin Inc.
Burlington Building
14th Floor
605 – 5th Avenue SW
Calgary AB T2P 3H5
Telephone (403) 294-2100
Fax (403) 237-8365

SNC-Lavalin ATP Inc.
1035 – 7th Avenue SW
Calgary AB T2P 3E9
Telephone (403) 539-4550
Fax (403) 539-4551

AltaLink Management Ltd.
1035 – 7th Avenue SW
Calgary AB T2P 3E9
Telephone (403) 267-3400
Fax (403) 267-3454

Titan SNC-Lavalin
800, 703 – 6th Avenue SW
Calgary AB T2P 0T9
Telephone (403) 261-6350
Fax (403) 261-6345

EDMONTON

SNC-Lavalin Inc.
608 Oxford Tower
10235-101 Street
Edmonton, AB T5J 3G1
Telephone (780) 426-1000
Fax (780) 426-4131

Northern SNC-Lavalin Constructors Inc.
8303 Roper Road
Edmonton AB T6E 6S4
Telephone (780) 462-4000
Fax (780) 462-6668

SASKATCHEWAN

SNC-Lavalin Audet
P.O. Box 492
642, 3rd Street E
Bruno SK S0K 0S0
Telephone (306) 369-7689
Fax (306) 369-2940

MANITOBA

SNC-Lavalin Engineers & Constructors Inc.
200 – 1600 Ness Avenue
Madison Square
Winnipeg MB R3J 3W7
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Fax (204) 786-7934

BRITISH COLUMBIA

VANCOUVER

SNC-Lavalin Inc.
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Vancouver BC V6E 3C9
Telephone (604) 662-3555
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SNC-Lavalin Engineers & Constructors Inc.
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1075 West Georgia Street
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Pacific Liaicon and Associates Inc.
Suite 950
1075 West Georgia Street
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Telephone (604) 662-3555
Fax (604) 299-8722

NORTHWEST TERRITORIES

Nishi-Khon / SNC-Lavalin Limited
100 Borden Drive
9 Stanton Plaza, Box 998
Yellowknife NT X1A 2N7
Telephone (867) 873-6242
Fax (416) 231-5356

YUKON

Kaska / SNC-Lavalin Inc.
Suite 200
304 Jarvis Street
Whitehorse YT Y1A 2H2
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Fax (416) 231-5356

UNITED STATES

COLORADO

SNC-Lavalin America, Inc.
Suite 200
5775 DTC Blvd.
Englewood CO 80111-3227
Telephone (303) 689-9144
Fax (303) 689-9148

CONNECTICUT

SNC Technologies Corp.
65 Sandscreen Street
Avon CT 06001-0575
Telephone (860) 404-0162
Fax (860) 404-0169

PENNSYLVANIA

SNC-Lavalin America, Inc.
6585 Penn Avenue
Pittsburgh PA 15206
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TEXAS

SNC-Lavalin GDS, Inc.
Suite 800
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WASHINGTON

SNC-Lavalin Constructors, Inc.
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WASHINGTON, DC

SNC-Lavalin International Inc.
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MAIN OFFICES

EUROPE

BELGIUM

S.A. SNC-Lavalin Europe N.V.
S.A. Coppée-Courtoy N.V.
Avenue Louise 251, Boîte 16
B-1050 Bruxelles
Telephone (322) 643.15.11
Fax (322) 647.74.35
Telex B 21139 CORUBX

FRANCE

SNC-Lavalin France S.A.S.
3 ter, rue d'Athènes
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Fax (2542) 75.03.94

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Fax (221) 860 1424

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SNC-Lavalin South Africa (Pty) Ltd.
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SNC-Lavalin International (Tunisia) Inc.
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1002 Tunis
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Fax (216-71) 84.17.00

MIDDLE EAST

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Manila Bay Area Rapid Transit Corp.
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World Trade Center
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Fax (7095) 258-1181

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SNC-Lavalin Australia Pty Ltd.
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Fax (61-7) 3010-9818

SNC-Lavalin Australia Pty Ltd.
Level 10, 190 St-George's Terrace
Perth, W.A. 6000
Telephone (61-8) 9321-3702
Fax (61-8) 9321-4660

Murraylink Transmission Company Pty Ltd.
GPO Box 7077
Riverside Centre
Level 11, 77 Eagle Street
Brisbane Qld 4000
Telephone (61-7) 3229-5983
Fax (61-7) 3211-8619

TEN-YEAR STATISTICAL SUMMARY

YEARS ENDED DECEMBER 31 (IN MILLIONS OF DOLLARS, EXCEPT PER-SHARE AMOUNTS)	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Revenues										
Services	**777.2**	583.2	544.9	531.0	537.9	533.8	559.3	405.6	415.6	516.9
Packages	**1,769.3**	863.2	523.6	438.8	687.8	619.1	595.9	425.9	376.4	220.8
Concessions	**885.1**	880.4	671.9	301.0	281.8	260.0	206.6	197.8	169.9	183.1
	3,431.6	2,326.8	1,740.4	1,270.8	1,507.5	1,412.9	1,361.8	1,029.3	961.9	920.8
Gross margin	**466.9**	373.4	310.8	300.9	281.3	270.4	259.2	205.9	206.4	223.6
Administrative, marketing and other expenses	**298.7**	234.4	202.5	206.1	199.7	199.5	196.3	163.6	152.2	177.2
Interest (revenues) and capital taxes	**57.0**	67.8	47.1	25.1	4.0	3.4	(1.1)	(10.0)	1.3	10.1
Income before gains, income taxes and amortization of goodwill	**111.2**	71.2	61.2	69.7	77.6	67.5	64.0	52.3	52.9	36.3
Gain on disposal of a portion of the investment in 407 International Inc.	**149.3**	–	–	–	–	–	–	–	–	–
Gain on dilution of investment in 407 International Inc.	**14.7**	–	–	–	–	–	–	–	–	–
Income before income taxes and amortization of goodwill	**275.2**	71.2	61.2	69.7	77.6	67.5	64.0	52.3	52.9	36.3
Income taxes	**72.7**	30.2	26.8	25.8	24.6	20.9	20.0	17.7	20.0	13.8
Income before amortization of goodwill	**202.5**	41.0	34.4	43.9	53.0	46.6	44.0	34.6	32.9	22.5
Amortization of goodwill (net of income taxes)	**–**	14.6	10.5	7.6	7.4	6.4	7.0	3.3	5.6	6.3
Net income (loss)										
Excluding Highway 407	**89.5**	59.2	53.1	49.5	45.6	40.2	37.0	31.3	27.3	16.2
From Highway 407	**113.0**	(32.8)	(29.2)	(13.2)	–	–	–	–	–	–
	202.5	26.4	23.9	36.3	45.6	40.2	37.0	31.3	27.3	16.2
Earnings before interest, taxes, depreciation and amortization										
Excluding Highway 407	**186.3**	144.1	120.3	107.2	109.9	99.4	88.7	62.9	77.4	65.4
From Highway 407	**196.8**	45.4	31.1	18.7	–	–	–	–	–	–
	383.1	189.5	151.4	125.9	109.9	99.4	88.7	62.9	77.4	65.4
Return on weighted average shareholders' equity										
Excluding Highway 407	**15.9%**	14.8%	14.9%	14.2%	14.3%	13.5%	14.9%	13.7%	13.2%	8.9%
From Highway 407	**20.1%**	(8.2%)	(8.2%)	(3.8%)	–	–	–	–	–	–
	36.0%	6.6%	6.7%	10.4%	14.3%	13.5%	14.9%	13.7%	13.2%	8.9%

TEN-YEAR STATISTICAL SUMMARY (CONTINUED)

YEARS ENDED DECEMBER 31 (IN MILLIONS OF DOLLARS, EXCEPT PER-SHARE AMOUNTS)	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Basic earnings per share										
Excluding Highway 407	**1.79**	1.24	1.14	1.06	0.98	0.84	0.79	0.67	0.58	0.36
From Highway 407	**2.25**	(0.69)	(0.63)	(0.28)	–	–	–	–	–	–
	4.04	0.55	0.51	0.78	0.98	0.84	0.79	0.67	0.58	0.36
Basic cash flow per share										
Excluding Highway 407	**2.79**	2.34	1.95	1.94	1.45	1.37	1.50	1.23	1.17	1.09
From Highway 407	**(0.07)**	0.03	(0.07)	0.08	–	–	–	–	–	–
	2.72	2.37	1.88	2.02	1.45	1.37	1.50	1.23	1.17	1.09
Weighted average number of shares – basic (in thousands)	**50,139**	47,914	46,350	46,628	46,560	48,083	46,711	46,838	46,833	45,081
Dividends declared per share	**0.37**	0.29	0.25	0.24	0.21	0.20	0.17	0.14	0.11	0.07

AT DECEMBER 31 (IN MILLIONS OF DOLLARS, EXCEPT PER-SHARE AMOUNTS)	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Number of employees	**14,538**	8,819	8,174	6,643	6,383	6,286	6,226	4,846	4,748	5,376
Backlog	**4,169.4**	3,497.0	3,974.1	2,759.3	1,941.6	2,191.1	2,447.6	2,226.9	2,243.1	1,764.0
Shareholders' equity	**597.1**	443.0	358.2	357.9	317.8	318.3	237.7	231.8	220.8	195.4
Book value per share	**11.90**	8.89	7.80	7.63	7.08	6.63	5.32	5.07	4.69	4.18
Cash and cash equivalents, short-term investments	**491.6**	323.2	255.8	110.3	217.6	146.5	146.0	282.5	215.2	133.0
Number of outstanding common shares (in thousands)	**50,157**	49,813	45,924	46,883	44,871	47,999	44,661	45,714	47,031	46,720
Closing market price per share (note)	**34.05**	28.90	13.95	10.95	11.55	11.00	13.85	8.83	7.58	6.25

Note: Based on closing market prices listed on the Toronto Stock Exchange

BOARD OF DIRECTORS

Jacqueline L. Boutet, C.M. (1)
President
Jacqueline L. Boutet Inc.
Montreal, Quebec
Canada

Jacques A. Drouin (2)
Managing Director
Canada Country Head
Lazard Brothers & Co., Limited
London
United Kingdom

Allan F. Leach (2)
President
Allan Leach Consultants Inc.
Toronto, Ontario
Canada

Hugh D. Segal (1)
President
Institute for Research
on Public Policy
Montreal, Quebec
Canada

Angus A. Bruneau, O.C., Ph.D. (2)
Chairman of the Board
Fortis Inc.
St. John's, Newfoundland
Canada

David Goldman (1)
Chairman of the Board
Intasys Corporation
Montreal, Quebec
Canada

Pierre H. Lessard (2)
President and
Chief Executive Officer
Metro Inc.
Montreal, Quebec
Canada

Lawrence N. Stevenson (2)
Company Director
Toronto, Ontario
Canada

John E. Cleghorn, C.A., F.C.A. (2)
Chairman of the Board
SNC-Lavalin Group Inc.
Montreal, Quebec
Canada

Jacques Lamarre
President and
Chief Executive Officer
SNC-Lavalin Group Inc.
Montreal, Quebec
Canada

Edythe A. Parkinson-Marcoux (1)
Company Director
Canmore, Alberta
Canada

Neil Webber, Ph.D. (1)
President and
Chairman of the Board
Webber Academy Inc.
Calgary, Alberta
Canada

(1) Member of the Audit Committee
(2) Member of the Corporate Governance and Human Resources Committee

BOARD OF DIRECTORS' COMMITTEES

The Board of Directors has two committees, both of which are composed entirely of outside and unrelated directors.

AUDIT COMMITTEE

This committee is responsible for assisting the Board of Directors in carrying out its responsibilities relating to the Company's accounting policies, financial reporting practices and internal controls. As part of its role, the Committee reviews financial statements prior to their approval by the Board, and monitors the effectiveness of the Company's internal control procedures and information systems.

CORPORATE GOVERNANCE AND HUMAN RESOURCES COMMITTEE

This committee monitors the Company's corporate governance practices and makes related recommendations to the Board, including recommendations of candidates for the Board of Directors. It also reviews and monitors human resources policies and management development programs, and reviews and approves compensation policies and succession plans for senior officers.

For a full description of the Company's corporate governance practices and the responsibilities of the Board committees, please refer to the Management Proxy Circular, which is available from the Corporate Secretary, or on the corporate website at the address shown below.

CORPORATE POLICIES

SNC-Lavalin has adopted comprehensive policies regarding quality, the environment, and health and safety. These policies are available on our website at **www.snclavalin.com**

INVESTOR AND SHAREHOLDER INFORMATION

WEBSITE: WWW.SNCLAVALIN.COM

SHARE INFORMATION
December 31, 2002:
Listed: Toronto Stock Exchange
Symbol: SNC
Closing price: CAN $34.05
Shares Outstanding: 50,157,000
Market Capitalization: CAN $1,708 million
Dividend declared for 2002: $0.37 per share.

CREDIT RATINGS
Standard & Poor's: BBB
Dominion Bond Rating Service: BBB

COMMON SHARE TRADING ACTIVITY

2002	SHARE VOLUME	HIGH	LOW
Fourth Quarter	5,463,000	$ 36.51	$ 30.01
Third Quarter	4,348,000	$ 37.25	$ 29.76
Second Quarter	8,795,000	$ 38.95	$ 29.50
First Quarter	7,042,000	$ 33.15	$ 25.26

COMMON SHARE TRADING ACTIVITY

2001	SHARE VOLUME	HIGH	LOW
Fourth Quarter	5,963,000	$ 28.90	$ 22.40
Third Quarter	6,772,000	$ 25.75	$ 18.10
Second Quarter	12,582,000	$ 22.25	$ 16.74
First Quarter	7,019,000	$ 17.34	$ 13.25

IMPORTANT DATES FOR 2003

	QUARTERLY REPORTS	DIVIDEND RECORD	DIVIDEND PAYMENT
Fourth Quarter 2002	March 7	March 21	April 4
First Quarter 2003	May 8	May 22	June 5
Second Quarter 2003	August 8	August 22	September 5
Third Quarter 2003	November 6	November 20	December 4

Note: Dividends are subject to approval by the Board of Directors. In exceptional circumstances, these dates may change without prior notice.

ANNUAL MEETING

THE ANNUAL SHAREHOLDERS' MEETING WILL BE HELD ON THURSDAY MAY 8, 2003 AT 11:00 AM
IN THE WESTIN HOTEL, 320 4TH AVENUE SOUTH WEST IN CALGARY

REGISTRAR AND TRANSFER AGENT

FOR INFORMATION ON MATTERS SUCH AS SHARE TRANSFERS, DIVIDEND CHEQUES AND CHANGES OF ADDRESS, INQUIRIES SHOULD BE DIRECTED TO: COMPUTERSHARE TRUST COMPANY OF CANADA
1500 UNIVERSITY STREET, SUITE 700, MONTREAL, QUEBEC H3A 3S8
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EXEMPLAIRES FRANÇAIS
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ADDITIONAL COPIES
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INVESTOR RELATIONS
Stéphane Roy
Director, Investor Relations
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ENVIRONMENTAL RESPONSIBILITY AND HEALTH & SAFETY

We are pleased to present SNC-Lavalin's first Annual Report on Environmental Responsibility and Health & Safety.

As engineers, scientists and other professionals, our business is to design and construct high quality roads, bridges, dams, hospitals, waste water treatment plants, water conveyance systems, oil refineries and many other projects for our clients, and to offer an equally high standard when we are entrusted with the ownership and management of such facilities and infrastructure.

By definition – we want to make a difference. We are proud of our achievements in 2002, and their positive impact on our bottom line. The high standard of professional work we are able to offer our clients is a tribute to our employees worldwide.

But in meeting clients' needs, and in pursuing our financial objectives, we are also conscious of our social responsibilities to our employees, to the community, and to the environment in which we work. The SNC-Lavalin vision statement underlines our commitment to ensuring that high standards of health and safety for our employees and the communities in which we work are a primary objective in all our activities both in Canada and worldwide. Minimizing and mitigating any negative impact our operations might have on local communities and the environment is a priority.

ACTIONS TAKEN TO DATE

These are well-established values at SNC-Lavalin. They are also firmly backed by corporate policies, which we expect our employees to view as "living" commitments on a day-to-day basis.

ENVIRONMENTAL RESPONSIBILITY

SNC-Lavalin stands firmly behind its stated support for a sustainable environment. Our corporate Environment Policy commits us to:

- Preventing pollution and continuously improving the integration of environmental protection issues into all our activities, and those of our clients, both in Canada and abroad
- Respecting applicable laws and regulations
- Continuous education and awareness raising
- Reporting on compliance to policy

SNC-Lavalin's Environmental Policy requires that:

- Project managers sign forms acknowledging respect for the Policy when they start a project and when it ends, as well as annually for projects of more than a year's duration
- All major projects submitted to the Risk and Evaluation Committee be systematically reviewed to ensure respect for environmental issues
- Training is carried out as required by divisions and business units
- Business units are responsible for their environmental management, with support from environmental specialists within SNC-Lavalin

In 2002, we launched an Environmental Management Program for on-site monitoring. The aim is to build on established practices to achieve consistent, state-of-the-art environmental construction site management by focusing on prevention, ensuring compliance to the policy, demonstrating compliance, and facilitating continual improvement. This year, we are also creating a new, on-site management position, the Site Environmental Officer (SEO). Much like the already present Health and Safety Officer, the SEO will be fully integrated into every project team. In this way, the SEO will help prevent accidents by involving all site personnel in the effort to improve environmental practices, document issues for site meetings, generate statistics and generally improve environmental management.

HEALTH & SAFETY

Our Board of Directors established the Occupational Health and Safety (OHS) Committee to monitor the Company's General Policy on OHS. Some measures already implemented include:

- Continuous education of our employees so they can help integrate OHS standards into SNC-Lavalin's activities
- Continuing to expand on our construction, operating and working methods to ensure OHS objectives are part and parcel of SNC-Lavalin's project quality criteria
- Producing an annual progress report on our stated OHS commitments and objectives

Senior management's ongoing commitment to promoting, implementing and enforcing our Health and Safety policy is reflected in the regular presence of this issue on the agenda at all Office of the President meetings. In addition, a Vice-President of Corporate Health and Safety has been appointed with specific responsibilities to oversee compliance with the Policy wherever we have a project mandate.

We are proud of employees' efforts to "live" our Health & Safety commitments during 2002, a year when we posted an exemplary record in almost every single sector of expertise. Some examples:

Mining and Metallurgy reported a safety record of 4.2 million on-site hours without a single lost-time incident at the Skorpion zinc mine project in the Namibian desert. At the Diavik diamond mine project in the Canadian Arctic, work on a new plant was completed last year ahead of schedule with a safety milestone of one million on-site hours without lost-time incident.

The Power division's Canatom-NPM Inc., completed work on the Bruce used fuel dry storage project with a flawless safety record of zero lost-time incidents. SNC-Lavalin's new employees from the former NEPCO firm in the US have an excellent safety reputation in the thermal power sector, with approximately half the lost-time incidents compared to industry average.

Chemicals & Petroleum's Sincor upstream heavy oil facilities project in Venezuela posted an impressive safety record with no lost-time incidents in 2002, and at our Indian Ocean Fertilizer expansion project in South Africa, 6.1 million hours were completed on site with safety final statistics five times better than the industry norms in that country.

Infrastructure's complex emergency water project for the citizens of Algiers was carried out in a record six months with no lost-time accidents.

AN ONGOING AND EVOLVING JOURNEY

SNC-Lavalin is an acknowledged world leader in its core sectors of technical expertise. We also recognize the need to be active leaders in raising awareness among employees and suppliers about the critical importance of health and safety on work sites, of preventing pollution, and of continually improving the quality of our on-site environmental management.

FOR A BETTER WORLD

Design: www.nolin.ca Printed in Canada

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